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## A BILL FOR AN ACT

RELATING TO THE STATE AUDITOR.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1           SECTION 1. The legislature finds that the effective  
2 oversight of managed care organizations that are under contract  
3 with the department of human services to provide managed care  
4 health insurance plans under the state medicaid program is  
5 essential to ensure the proper use of public funds and the  
6 delivery of quality health care services to medicaid  
7 beneficiaries. The state auditor plays a critical role in this  
8 oversight by conducting audits to assess the performance,  
9 compliance, and financial integrity of entities receiving state  
10 funds.

11           The legislature further finds that medicaid is a  
12 significant component of the State's budget. Ensuring the  
13 integrity and efficiency of medicaid health care insurance  
14 contractors is crucial for the sustainability of the program.  
15 Given the complexity and scale of medicaid operations, it is  
16 imperative to have a robust audit mechanism to identify and



1 address any issues related to financial management, service  
2 delivery, and compliance with federal and state regulations.

3       The legislature further finds that auditing Hawaii's  
4 medicaid health care insurance contractors will promote  
5 transparency; ensure medicaid funds are used appropriately and  
6 for their intended purpose; ensure Hawaii's medicaid  
7 beneficiaries are receiving the requisite quality of care;  
8 ensure compliance with all applicable state and federal laws,  
9 regulations, and contractual obligations; and improve the  
10 efficacy and effectiveness of medicaid health care insurance  
11 contractors, leading to better health care outcomes for  
12 beneficiaries.

13       The legislature further finds that the Medicaid Program  
14 Integrity Manual, published by the Centers for Medicare and  
15 Medicaid Services, outlines the importance of audits in  
16 identifying and addressing medicaid fraud, waste, and abuse.  
17 The manual emphasizes the need for proactive project development  
18 and collaboration between state agencies and auditors to ensure  
19 program integrity. Additionally, a report by the United States  
20 Government Accountability Office published on September 21,  
21 2023, highlights the critical role of state auditors in medicaid



1 oversight. The report found that state auditors identified an  
2 average of over three hundred medicaid audit findings per year,  
3 including overpayments and payments to ineligible providers.  
4 The report also noted that nearly sixty per cent of medicaid  
5 audit findings were repeated from the prior year, indicating the  
6 need for more effective corrective actions.

7       Specific incidents in Hawaii have highlighted the need for  
8 rigorous audits. For example, the department of human services  
9 identified multiple cases of medicaid overpayments due to  
10 provider ineligibility, noncovered services, and lack of prior  
11 authorization in 2021 and 2022. These overpayments were  
12 resolved through recoupment, tax offset, and circuit court  
13 judgments. Additionally, a focused program integrity review by  
14 the Centers for Medicare and Medicaid Services in 2023 found  
15 that Hawaii's medicaid managed care program had several areas  
16 needing improvement in terms of fraud, waste, and abuse  
17 prevention. The review identified issues such as inadequate  
18 oversight of managed care organizations, insufficient fraud  
19 detection and prevention measures, and lack of coordination  
20 between state agencies and managed care organizations.



1           The legislature further finds that the focused program  
2 integrity review also highlighted that the state medicaid  
3 program lacked effective mechanisms to detect and prevent fraud  
4 within managed care payments. This included issues with  
5 incorrect fee-for-service payments and inaccurate state payments  
6 to managed care organizations. The review additionally found  
7 that there was a lack of coordination between state agencies and  
8 managed care organizations, which led to inefficiencies and  
9 potential financial losses. Although a memorandum of  
10 understanding between the department of human services and  
11 department of health was established to improve coordination and  
12 alignment, challenges remain.

13           The legislature believes that the findings of the 2023  
14 Center for Medicare and Medicaid Services focused program  
15 integrity review report necessitate a state audit to address the  
16 identified issues and ensure the integrity and efficiency of the  
17 state medicaid program. The legislature further finds that the  
18 state auditor has had legal authority since 1975 to audit  
19 medicaid health care insurance contractors but has never  
20 exercised this authority, making these audits long overdue.



1           Accordingly, the purpose of this Act is to require the  
2 state auditor to conduct management and financial audits of the  
3 State's medicaid health care insurance contractors on a biennial  
4 basis.

5           SECTION 2. Chapter 23, Hawaii Revised Statutes, is amended  
6 by adding a new section to be appropriately designated and to  
7 read as follows:

8           "§23-        **Medicaid health care insurance contractors;**  
9 **audit; report.** (a) The auditor shall conduct at least once  
10 every two years a management and financial audit of all medicaid  
11 health care insurance contractors. The first audit shall be  
12 conducted within six months of July 1, 2025, with the first  
13 audit report to be submitted no later than twenty days prior to  
14 the regular session of 2027.

15           (b) Audits under this section shall:

16           (1) Assess the financial integrity, performance, and  
17           compliance with all applicable federal and state laws,  
18           regulations, and contractual obligations of each  
19           medicaid health care insurance contractor; and

20           (2) Review documents, including but not limited to any  
21           books, records, or other evidence, related to the



1           financial and operational activities of each medicaid  
2           health care insurance contractor.

3           (c) All medicaid health care insurance contractors shall  
4           cooperate with and assist the auditor as needed in conducting  
5           the audit, including promptly providing all records, documents,  
6           and any other information requested by the auditor in the course  
7           of the audit.

8           (d) The auditor shall submit a report of its findings and  
9           recommendations to the governor, legislature, and director of  
10          human services no later than twenty days prior to the convening  
11          of the regular session following the year in which the audit is  
12          conducted.

13          (e) The auditor may conduct additional audits as deemed  
14          necessary based on risk assessments or at the request of the  
15          governor, legislature, or director of human services.

16          (f) As used in this section, "medicaid health care  
17          insurance contractors" means managed care organizations that are  
18          under contract with the department of human services to provide  
19          managed care health insurance plans under the state medicaid  
20          program."



# H.B. NO. 1274

1           SECTION 3. There is appropriated out of the general  
 2 revenues of the State of Hawaii the sum of \$                            or so  
 3 much thereof as may be necessary for fiscal year 2025-2026 and  
 4 the same sum or so much thereof as may be necessary for fiscal  
 5 year 2026-2027 to conduct management and financial audits of  
 6 medicaid health care insurance contractors as required by this  
 7 Act.

8           The sums appropriated shall be expended by the office of  
 9 the state auditor for the purposes of this Act.

10           SECTION 4. New statutory material is underscored.

11           SECTION 5. This Act shall take effect on July 1, 2025.

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INTRODUCED BY:

*Amy Peruso*  
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 JAN 22 2025



# H.B. NO. 1274

**Report Title:**

Medicaid; Managed Care Organizations; Medicaid Health Care Insurance Contracts; Auditor; Management and Financial Audits; Appropriation

**Description:**

Requires the State Auditor to conduct management and financial audits of Medicaid health care insurance contractors at least once every two years, with the first audit report to be submitted no later than twenty days prior to the Regular Session of 2027. Appropriates funds.

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