

Audit Report

**Maryland Department of Health
Medical Care Programs Administration
Managed Care Program**

April 2020



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

April 22, 2020

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – Medical Care Programs Administration’s (MCPA) fiscal activities with respect to the Managed Care Program (known as HealthChoice) for the period beginning July 1, 2015 and ending March 31, 2019. Under HealthChoice, MCPA makes monthly capitation payments to private Managed Care Organizations (MCOs) to cover the cost of services provided to Medicaid recipients. During calendar year 2018, MCPA paid providers approximately \$5.7 billion for HealthChoice services, which was financed by State and federal funds.

Our audit disclosed procedural deficiencies in several areas that could impact the cost of the MCPA managed care services. We found that MCPA did not sufficiently verify data that were used in the computation of capitation (per person) rates paid to MCOs, nor verify that the rates, using the data, were properly calculated. Although MCPA contracts with an independent accounting firm to verify the MCO-reported expenditures used in the capitation rate calculations, and has a longstanding interagency agreement with a State university to calculate the capitation rates, these practices should be enhanced.

Specifically, MCPA did not take follow-up action with the MCOs when the firm was unable to validate certain MCO-reported expenditures, and MCPA did not review the capitation rates calculated by the State university for accuracy. In addition, MCPA did not ensure that the MCOs were maximizing third-party recoveries and cost avoidance efforts, as required by State

regulations, which are factors that, if properly practiced, could reduce program expenditures. Generally, errors or omissions, such as over-reporting MCO expenditures and under-reporting recoveries, could result in higher capitation rates. During calendar year 2018, capitation payments accounted for approximately 91 percent (\$5.2 billion) of total payments to the MCOs.

Our audit also disclosed that MCPA had not established any procedures to verify the propriety of supplemental payments made to MCOs for newborn deliveries and hepatitis C treatments, which totaled \$410.1 million during fiscal year 2018. Finally, MCPA did not consistently verify the propriety of labor and overhead charges invoiced by the State university under its interagency agreement for assisting in the MCO rate-setting process.

Our audit included a review to determine the status of the four findings pertaining to HealthChoice contained in our preceding MCPA audit report. We determined that MCPA satisfactorily addressed three of these findings. The remaining finding is repeated in this report.

MDH's response to this audit, on behalf of MCPA, is included as an appendix to this report. We reviewed the response to our findings and related recommendations, and have concluded that the corrective actions identified are sufficient to address all audit issues.

We wish to acknowledge the cooperation extended to us during the audit by MCPA. We also wish to acknowledge MDH's and MCPA's willingness to address the audit issues and implement appropriate corrective actions.

Respectfully submitted,



Gregory A. Hook, CPA
Legislative Auditor

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* Denotes item repeated in full or part from preceding audit report

Background Information

Agency Responsibilities and Audit Scope

The Medical Care Programs Administration (MCPA) of the Maryland Department of Health (MDH) operates under both Title XIX of the federal Social Security Act (Medicaid) and State law. Medicaid is a joint federal and state entitlement program for low-income individuals. The program is administered by the states, which are required to provide healthcare coverage to all applicants who meet the program's eligibility criteria.

MCPA operates the Managed Care Program, known as HealthChoice, under which nine private Managed Care Organizations (MCOs) provide medical services to Medicaid recipients. In general, MCOs contract with and pay health care professionals and other entities (such as hospitals) to provide these services. MCPA makes a monthly capitation payment for each Medicaid recipient enrolled in the MCO. The capitation rates vary by recipient based on several factors, including the recipient's demographics and medical history. MCPA also reimburses the MCOs for certain high-cost activities (such as newborn deliveries and Hepatitis C treatments). According to MCPA records as of December 31, 2018, approximately 1.2 million (or 85 percent) of the 1.4 million Medicaid recipients were enrolled in MCOs. During calendar year 2018, MCPA made payments to MCOs totaling approximately \$5.7 billion which was financed by State and federal funds.

The scope of this audit included MCPA's monitoring of the following services: enrollment and disenrollment of recipients in MCOs, calculations of the MCO capitation rates, MCO oversight and processing of the related MCO payments. Separate audits are conducted of MCPA primary functions (such as recipient eligibility, long-term care, and hospital services), MCPA's monitoring of the Behavioral Health Administration's Administrative Service Organization, and the MCPA pharmacy program.

Status of Findings from Preceding Audit Report

Our audit included a review to determine the status of 4 of the 15 findings contained in our preceding audit report of MCPA dated August 18, 2017. As disclosed in the following table, we determined that MCPA satisfactorily addressed 3 of these 4 findings. The remaining finding is repeated in this report. Our audit did not include a review of 11 findings contained in our preceding MCPA audit report that related to MCPA's primary functions and the Behavioral

Health Administration’s Administrative Service Organization that are included in our separate MCPA audits.

Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	MCPA did not assign a temporary enrollment status to 11,153 new enrollees, resulting in delays in placing individuals in MCOs. Such delays, which were allegedly caused by a computer compatibility issue, resulted in certain associated claims being paid on a fee-for-service basis that would have been paid by an MCO.	Not repeated
Finding 6	MCPA did not always assess damages against its MCO enrollment broker which continuously failed to meet minimum enrollment levels required by the contract.	Not repeated
Finding 14	MCPA did not obtain documentation to support labor and overhead charges invoiced by a State university, representing 72 percent of amounts billed during fiscal year 2016 under the agreement for MCO capitation rate-setting services.	Repeated (Current Finding 5)
Finding 15	MCPA did not authorize the State university to transmit sensitive Medicaid protected health information to a third-party vendor for data storage and did not ensure the State University executed a data-sharing agreement with this vendor, as required by federal regulations.	Not repeated

Findings and Recommendations

Capitation Rate Calculations

Background

According to its records, Medical Care Programs Administration (MCPA) payments to the Managed Care Organizations (MCOs) totaled approximately \$5.7 billion during calendar year 2018 and were financed by State and federal funds. Capitation payments accounted for approximately 91 percent (\$5.2 billion) of this amount, and the remaining \$459.6 million was for supplemental payments made to MCOs for certain high cost services (such as newborn deliveries and hepatitis C treatments).

The capitation rates are calculated on a calendar year basis, using the MCOs' reported expenditures from three years prior, and vary by recipient depending on the assigned capitation rate category. Each recipient is placed in one of 62 capitation categories based on factors such as age, demographics, and historical medical services provided. For example, for calendar year 2018, the monthly capitation rates paid for childless adults in Baltimore City ranged from \$323 to \$2,278 per recipient.

MCPA has a longstanding interagency agreement with a State university to assist with the capitation rate-setting process and to assign each MCO enrollee to a specific capitation category. MCPA periodically meets with the State university and MCOs to discuss proposed adjustments to the capitation rates. MCPA also contracts with an independent accounting firm to verify the expenditures reported by MCOs that are used in the rate-setting process.

Finding 1

MCPA did not take follow-up action when its independent accounting firm was unable to validate certain MCO-reported expenditures that were used to calculate capitation rates.

Analysis

MCPA did not take follow-up action when its independent accounting firm concluded it was unable to validate certain MCO-reported expenditures that were used to calculate capitation rates. Rather, MCPA simply forwarded the firm's conclusions to the State university for its consideration in the capitation payment calculations. We reviewed the firm's reports for six MCOs that received capitation payments totaling \$4.5 billion during calendar year 2018. Our review disclosed that four of the six reports concluded that there were instances in which the firm could not verify certain expenditure data because of inadequacies with

the MCOs' records or a lack of supporting documentation, and MCPA did not take any action to address or ensure that the MCOs resolved these deficiencies. These four MCOs received capitation payments totaling \$2.8 billion during calendar year 2018.

For example, one MCO did not maintain a dedicated account to record medical expenses incurred only for Maryland Medicaid recipients. Rather, the MCO recorded all of its medical expenses (which totaled \$2.6 billion in calendar year 2015) in the same account. As a result, the firm could not verify that the medical expenses reported by the MCO for Maryland Medicaid recipients (\$96.7 million) were proper. For another MCO, the firm's test of 25 MCPA medical claims, totaling \$781,000, disclosed that 6 claims totaling \$56,000 lacked documentation to support that the amounts billed were proper. In each instance, MCPA had not taken action to ensure the expenditure data used in the capitation calculations were accurate.

Recommendation 1

We recommend that MCPA take appropriate steps when MCO expenditure data cannot be verified. Specifically, MCPA should work with the MCOs to obtain support for the expenditures and take action to address the causes for errors noted.

Finding 2

MCPA did not verify that MCO expenditure data used in the capitation rate calculations were accurate or ensure the rates calculated by the State university were mathematically accurate.

Analysis

MCPA did not verify that MCO expenditure data used in the capitation rate calculations were accurate or ensure the rates calculated by the State university were mathematically accurate. The calculations of the annual capitation rates serve as the basis for the monthly capitation payments to MCOs for Medicaid recipients and are highly complex.

- MCPA did not verify that MCO expenditure data used in the capitation rate calculations were accurate. Specifically, our review disclosed that MCPA did not have any procedures in place to ensure that the State university properly recorded the individual MCO-reported expenditure data and correctly processed any adjustments to those data. The State university made certain adjustments to the individual MCO-reported expenditure data based on the

findings reported by the independent accounting firm (as noted in Finding 1) before it manually consolidated the data for input into the calculations.

As of August 2019, neither MCPA nor the State university could readily provide documentation of the specific adjustments that were made for the calendar year 2018 capitation rates or the reasons for which the adjustments were processed. In this regard, our review disclosed that the independent accounting firm's reports generally did not identify the particular capitation rate categories that were affected by the errors discovered nor did the reports specify how needed corrections should be allocated among the individual rate categories. Based on our analysis, we determined that the total MCO expenditures used by the State university in the calendar year 2018 capitation rate calculations were \$10.7 million lower than the unadjusted MCO expenditures. While lower expenditures would result in lower capitation rates, MCPA had no assurance that the expenditures used in the capitation rate calculation were proper.

- MCPA did not ensure the rates calculated by the State university were mathematically accurate. During the capitation rate-setting process, the State university, with assistance from an actuary, made adjustments to each capitation rate category (for example, to account for changes in covered services). However, MCPA did not review the mathematical calculation of the rates to ensure that these adjustments were properly applied. Although the rates were submitted to the federal Centers for Medicare and Medicaid Services (CMS) for final approval, we were advised that the CMS review was limited to ensuring that the rate-setting methodology was actuarially sound, and did not include a verification of the mathematical accuracy of the calculated rates.

Recommendation 2

We recommend that MCPA establish a process to provide assurance as to the reasonableness of the State university's calculated annual capitation rates.

Specifically, we recommend that MCPA establish procedures

- a. to verify that MCO expenditure data used and adjustments made to these expenditure data were proper, and**
- b. to verify the mathematical accuracy of the capitation rate calculations.**

MCO Third-Party Cost Recovery and Cost Avoidance

Finding 3

MCPA did not ensure its independent accounting firm verified that MCOs were maximizing their third-party cost recovery and cost avoidance efforts, as required.

Analysis

MCPA did not ensure its independent accounting firm, as required by its contract, verified that MCOs were maximizing their third-party cost recovery and cost avoidance efforts. Cost recovery is the process of recovering amounts due to MCPA from third parties after MCPA has already paid for recipient services, and cost avoidance efforts involve taking proactive steps to identify third parties before these payments are made. State regulations provide that MCOs are responsible for identifying recipients with third-party insurance and recovering or avoiding payments for any related costs.

MCPA's contract with the accounting firm required the firm to assess the sufficiency of each MCO's cost recovery and cost avoidance efforts during its reviews of MCO expenditures. However, our review of the firm's reports for the aforementioned six MCOs for calendar year 2018 disclosed that the firm obtained and reviewed each MCO's third-party cost recovery and cost avoidance procedures, but it did not assess the sufficiency or adequacy of these procedures for each MCO. Furthermore, MCPA did not follow up with the firm to enforce this contract requirement.

The failure to verify that the MCOs' third-party cost recovery and cost avoidance efforts are maximized could result in higher than necessary MCO expenditures, which could increase the capitation rates paid by MCPA since the expenditures are included in the rate calculation. According to MCPA records, these six MCOs reported third-party cost recovery and cost avoidance totaling approximately \$124.1 million in calendar year 2018.

Recommendation 3

We recommend that MCPA ensure that its independent accounting firm verifies the sufficiency of the MCOs third-party cost recoveries and cost avoidance efforts as required by its contract and take appropriate actions, if the MCOs' efforts are found to be insufficient.

MCO Supplemental Payments

Finding 4

MCPA had not established procedures to verify the propriety of supplemental payments to MCOs for newborn deliveries and hepatitis C treatments.

Analysis

MCPA did not have any established procedures to verify the propriety of certain types of supplemental payments to MCOs. Although a verification process was in place for supplemental payments for very low birth weight deliveries, the two most expensive payment types, newborn deliveries and hepatitis C treatments, were not verified by MCPA. According to its records, during fiscal years 2016 through 2018, MCPA paid 85,318 supplemental claims totaling approximately \$1.3 billion, of which 94 percent (\$1.24 billion) were for newborn delivery and hepatitis C treatment claims.

Claim Type	Number of Claims	Amount Paid
Newborn Deliveries	72,224	\$ 869,827,127
Hepatitis C Treatment	12,003	374,395,710
Very Low Birth Weight Deliveries	1,091	78,499,806
Total	85,318	\$ 1,322,722,643

Source: MCPA records

- MCPA did not obtain supporting documentation (such as hospital records) to verify that newborn delivery claims submitted by MCOs for payment through its automated provider payment system, the Medicaid Management Information System (MMIS II), were proper. During fiscal year 2018, supplemental payments for each newborn delivery ranged from \$10,543 to \$16,278, depending on the geographic location. We judgmentally selected 30 newborn delivery claims billed between July 2015 and June 2018 totaling \$385,803 and, in an attempt to validate these claims, we requested that MCPA determine whether delivery services had been provided in each case. As a result of our request, MCPA determined that there was no delivery service for one of these claims, costing \$13,583, and therefore the claim should not have been paid. MCPA was not previously aware of this improper payment.
- MCPA paid MCO claims for hepatitis C treatment without ensuring the claims had been approved for propriety. During fiscal year 2018, the supplemental amounts paid by MCPA for each treatment ranged from \$53,698 to \$183,165, depending on the duration of the treatment. MCPA has an interagency agreement with a State university to review hepatitis C treatment claims for compliance with clinical criteria established by the Maryland

Department of Health (MDH). Once approved by the State university, MCPA notified MCOs to submit the claims for payment through MMIS II. However, MCPA paid all hepatitis C claims submitted by MCOs without first verifying that the claims had actually been approved by the State university. Our test of 51 supplemental claims for hepatitis C treatments paid by MCPA during fiscal year 2018, totaling \$1.5 million, did conclude that each payment tested had been approved by the university.

In addition, MCPA had not established a process to periodically review (at least on a test basis) the propriety of individual claims approved by the State university. As a result, improper claims could be processed and not be readily detected.

Since MCPA's MMIS II does not have system edits to identify any potential improprieties with supplemental claims, there was a lack of assurance that supplemental payments for newborn deliveries and hepatitis C treatment were proper.

Recommendation 4

We recommend that MCPA establish procedures to

- a. verify the propriety of newborn delivery supplemental claims submitted by the MCOs through verification of supporting documentation;**
- b. verify university approval of hepatitis C treatments prior to payment of supplemental claims submitted by the MCOs;**
- c. independently verify that the university is properly approving hepatitis C claims; and**
- d. recover any amounts paid for improper claims, including the one noted above.**

State University Labor and Overhead Charges

Finding 5

MCPA did not consistently verify the propriety of certain labor and overhead charges invoiced by a State university prior to making payments.

Analysis

MCPA did not consistently verify the propriety of labor and overhead charges invoiced by the State university under its interagency agreement for assisting in the MCO capitation rate-setting process, prior to processing invoices for payment. During fiscal year 2019, labor and overhead costs from the State university

accounted for approximately 70 percent (\$5.0 million) of the total charges of \$7.1 million.

Although in our preceding audit report, we noted that MCPA did not obtain documentation for these charges, currently we found that MCPA had begun obtaining payroll reports from the State university for use in the invoice verification process. The reports detailed the employees who worked on MCPA projects and the amounts paid for each employee. However, our test of 11 invoices submitted by the State university during fiscal year 2019 related to MCO capitation rate-setting totaling \$2.9 million disclosed that MCPA could not document that it used these reports to verify the propriety of the charges for 6 invoices totaling \$1.6 million. Specifically, for 4 invoices, MCPA paid the invoices prior to receiving the payroll reports and did not perform a subsequent documented review of the reports. For the other 2 invoices, the payroll reports received did not correspond with the periods invoiced. Together with MCPA, we subsequently determined that the amounts invoiced were proper for all 6 of these invoices. Nevertheless, the propriety of these charges should be routinely verified prior to payment.

Recommendation 5

We recommend that MCPA consistently obtain payroll reports to support labor and overhead charges invoiced by the State university and use the reports to verify the accuracy of charges billed prior to payment (repeat).

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – Medical Care Program Administration’s (MCPA) fiscal activities with respect to the Managed Care Program (HealthChoice) for the period beginning July 1, 2015 and ending March 31, 2019. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MCPA’s financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included MCPA’s monitoring of the services provided by its Managed Care Organizations (MCOs), enrollment and disenrollment of Medicaid recipients in MCOs, payments to MCOs (including MCPA’s capitation rate-setting process), and interagency agreements. We also determined the status of 4 of the 15 findings contained in our preceding audit report of MCPA. We determined the status of the remaining 11 findings during separate MCPA audits conducted of MCPA’s primary functions and the Behavioral Health Administration’s Administrative Services Organization.

Our audit did not include certain support services provided to MCPA by MDH. These support services (such as payroll, purchasing, contract procurement, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of the MDH – Office of the Secretary and Other Units. In addition, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of MCPA’s compliance with those laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MCPA.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspection of documents and records, observations of

MCPA's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during the audit. We also extracted data from the Medicaid Management Information System for the purpose of selecting test items. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MCPA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MCPA, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MCPA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MCPA that did not warrant inclusion in this report.

The response from MDH, on behalf of MCPA, to our findings and recommendations, is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDH regarding the results of our review of its response.

APPENDIX



Larry Hogan, Governor · Boyd K. Rutherford, Lt. Governor · Robert R. Neall, Secretary

April 7, 2020

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
State Office Building, Room 1202
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed are the REVISED responses to the draft audit report from your Maryland Department of Health (MDH) – Medical Care Programs Administration’s (MCPA) fiscal activities with respect to the Managed Care Program for the period beginning July 1, 2015 and ending March 31, 2019.

If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at frederick.doggett@maryland.gov.

Sincerely,



Robert R. Neall, Secretary
Maryland Department of Health

cc: Dennis R. Schrader, Deputy Secretary for Health Care Financing, MDH
Frederick D. Doggett, Inspector General, MDH

**Maryland Department of Health
 Medical Care Programs Administration
 Managed Care Program**

Agency Response Form

Capitation Rate Calculations

Finding 1
 MCPA did not take follow-up action when its independent accounting firm was unable to validate certain MCO-reported expenditures that were used to calculate capitation rates.

We recommend that MCPA take appropriate steps when MCO expenditure data cannot be verified. Specifically, MCPA should work with the MCOs to obtain support for the expenditures and take action to address the causes for errors noted.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 1	Agree	Estimated Completion Date:	7/31/2020
Please provide details of corrective action or explain disagreement.	<p>MCPA does review the reports produced by the independent accounting firm and directs that the recommendations for adjustments, such as removing non-allowable expenses, be incorporated into the rate setting base. Going forward, the MCPA is working on developing a documented to follow-up with MCOs when the auditor reports that expenditure data cannot be verified.</p> <p>MCPA will adopt standard operation procedures which include:</p> <ul style="list-style-type: none"> • Letters to MCOs requesting additional information about data that could not be verified. • Expansion of testing when data cannot be verified. • Excluding expenditures that cannot be verified from the rate setting base. <p>MCPA will also strengthen the MCO contract language to include provisions to verify expenditure.</p>		

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Finding 2

MCPA did not verify that MCO expenditure data used in the capitation rate calculations were accurate or ensure the rates calculated by the State university were mathematically accurate.

We recommend that MCPA establish a process to provide assurance as to the reasonableness of the State university’s calculated annual capitation rates. Specifically, we recommend that MCPA establish procedures

- a. to verify that MCO expenditure data used and adjustments made to these expenditure data were proper, and**
- b. to verify the mathematical accuracy of the capitation rate calculations.**

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.	<p>The MCO rate setting process is a collaborative process that requires inputs from the rate setting vendor, the vendor’s contracted actuarial firm, the Department, and the MCOs themselves. Monthly meetings are held between all of the above parties where adjustments to the rates, which have been pre-approved by the Department, are discussed. Detail surrounding the calculation of those adjustments is distributed to all parties at the monthly meetings. Additionally, the actuarial firm provides the Department with a detailed certification letter, which is reviewed by the Department before it is filed with the Centers for Medicare and Medicaid Services for approval.</p>		
Recommendation 2a	Agree	Estimated Completion Date:	5/15/2020
Please provide details of corrective action or explain disagreement.	<p>MCPA agrees. MCPA will develop a list of the adjustments to the base data recommended by the independent CPA firm. MCPA will then meet with the rate setting contractor to discuss how the CPA firm’s recommendations will be incorporated into the base financial data. MCPA will request documentation from the rate setting contractor as needed to verify the adjustments were made as agreed to.</p>		
Recommendation 2b	Agree	Estimated Completion Date:	5/15/2020

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Please provide details of corrective action or explain disagreement.	MCPA will discuss and request documentation related to additional adjustments to the base data beyond those recommended by the independent CPA firm. MCPA will be copied on all correspondence between the rate setting contractor and subcontracted actuarial firm related to adjustments.
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MCO Third-Party Cost Recovery and Cost Avoidance

<p>Finding 3 MCPA did not ensure its independent accounting firm verified that MCOs were maximizing their third-party cost recovery and cost avoidance efforts, as required.</p>

We recommend that MCPA ensure that its independent accounting firm verifies the sufficiency of the MCOs third-party cost recoveries and cost avoidance efforts as required by its contract and take appropriate actions, if the MCOs' efforts are found to be insufficient.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 3	Agree	Estimated Completion Date:	7/31/2020
Please provide details of corrective action or explain disagreement.	<p>MCPA agrees with the finding.</p> <p>Going forward, MCPA will work with the independent accounting firm to develop agreed upon procedures to verify the sufficiency of MCO third-party cost recoveries and cost avoidance efforts.</p> <p>Relevant to this finding, there is currently a procurement in progress for a third party liability (TPL) vendor contract to start in the summer of 2020. The RFP contains language requiring the TPL contractor to:</p> <p>1. Identify potential overpayments through audits of MCOs to assure that appropriate funds are returned to MDH.</p>		

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	<p>2. Develop a methodology to identify MCOs' overpayments.</p> <p>3. Develop a methodology to identify and collect Medicaid credit balances from all MCOs for services paid by the program for Medicaid recipients from third party sources and duplicate State payments.</p> <p>4. Complete 100% of MCO audits on a quarterly basis.</p> <p>The contract monitor for the TPL vendor will be responsible for ensuring that this requirement is met.</p>
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MCO Supplemental Payments

Finding 4
MCPA had not established procedures to verify the propriety of supplemental payments to MCOs for newborn deliveries and hepatitis C treatments.

- We recommend that MCPA establish procedures to
- a. verify the propriety of newborn delivery supplemental claims submitted by the MCOs through verification of supporting documentation;
 - b. verify university approval of hepatitis C treatments prior to payment of supplemental claims submitted by the MCOs;
 - c. independently verify that the university is properly approving hepatitis C claims; and
 - d. recover any amounts paid for improper claims, including the one noted above.

Agency Response			
Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	Estimated Completion Date:	7/1/2020
Please provide details of corrective action or explain disagreement.	MCPA agrees with the finding. MCPA will educate the MCOs to perform verification for labor and delivery claims to determine that delivery services have taken place before submitting supplemental claims to MCPA. At the end of each calendar year, Medicaid will run a		

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	<p>report of all labor and delivery supplemental claims in the last 12 months and exclude newborns with claims and newborns with Medicaid enrollment. The MCOs will review the remaining claims to verify that labor and delivery occurred. MDH will review the MCO's information and, if MDH cannot verify if a labor and delivery service was rendered, we will retract it from the MCOs. A written standard operation procedure will be developed to memorialize this protocol.</p>		
Recommendation 4b	Agree	Estimated Completion Date:	12/31/2019
Please provide details of corrective action or explain disagreement.	<p>MCPA agrees with the finding. The University will send an approval statement along with the denial statement. MCPA has communicated with the University that the Chief and Accountant Supervisor need access to the secure portal when exchanging emails about approvals and denials for HEP C supplemental payments.</p> <p>MCPA has enforced a Standard Operating Procedure (SOP) for HEP C billing and supplement process. The SOP outlines steps for data validation and data analysis. Specifically, MCPA will check the approval and denial statements for the following:</p> <ul style="list-style-type: none"> • Total number of claims agree with original report • Check for duplicate names and dates • Prior authorization forms <p>Labs or Diagnostics for each patient identified on the spreadsheet.</p>		
Recommendation 4c	Agree	Estimated Completion Date:	12/31/2019
Please provide details of corrective action or explain disagreement.	<p>MCPA agrees with the finding. MCPA stores back up documents to cross reference what was paid to what was approved. The University will send over an approval statement along with the denial statement. Specifically, MCPA will check for the following:</p> <ul style="list-style-type: none"> • Patient names on word document are from the current month • Reasons for denials • Approvals match what was sent for review <p>MCPA has regular HEP C monthly meetings to discuss any issues with the University. Furthermore, starting in FY 2021, MCPA will</p>		

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	<p>randomly select 5 claims every month for clinical review/auditing, to ensure the University is properly approving hepatitis C claims. A written procedure will be developed to memorialize this protocol.</p> <p>MCPA has enforced a Standard Operating Procedure (SOP) for HEP C billing and supplement process. The SOP outlines steps for data validation and data analysis. This process will be added to the SOP that is in place.</p>		
Recommendation 4d	Agree	Estimated Completion Date:	7/1/2020
Please provide details of corrective action or explain disagreement.	<p>MCPA agrees with the finding. For the one claim noted, MCPA has investigated and recovered the full payment amount of \$13,583.35 from the MCO as of 10/12/19.</p> <p>For hepatitis C supplemental payments, MCPA has created excel workbooks for each MCO which includes a detailed schedule for each FY starting with FY2020 outlining – names, dates of services, medication prescribed, date submitted for payment, approvals and denials, and payment dates. MCPA has enforced a Standard Operating Procedure (SOP) for HEP C billing and supplement process. The SOP outlines steps for data validation and data analysis. This process will be added to the SOP that is in place. This information will be used to investigate and recover any improper claims/funds in the future when appropriate.</p> <p>A written procedure will be developed to memorialize this protocol.</p>		

State University Labor and Overhead Charges

Finding 5
MCPA did not consistently verify the propriety of certain labor and overhead charges invoiced by a State university prior to making payments.

We recommend that MCPA consistently obtain payroll reports to support labor and overhead charges invoiced by the State university and use the reports to verify the accuracy of charges billed prior to payment (repeat).

Agency Response

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Analysis	Factually Accurate		
Please provide additional comments as deemed necessary.			
Recommendation 5	Agree	Estimated Completion Date:	7/1/2019
Please provide details of corrective action or explain disagreement.	<p>MCPA has adopted a Standard Operating Procedure (SOP) regarding processing of all invoices submitted by the State university. This SOP requires review of labor and overhead charges prior to processing and payment of any invoice. The SOP includes procedures for reviewing accuracy of the "Salary and Wages" and "Fringe Benefits" invoiced amount against the following documents: (1) Statement of Payroll Charges, (2) Grant Detail Report, and (3) Grant Summary Report. The SOP is available on request. All invoices for FY20 have been reviewed following this protocol.</p>		

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