



STATE OF MICHIGAN

DEPARTMENT OF COMMUNITY HEALTH  
LANSING

JENNIFER M. GRANHOLM  
GOVERNOR

JANET OLSZEWSKI  
DIRECTOR

Mr. Doug Ringler  
Office of Internal Audit Services  
Office of the State Budget  
George W. Romney Building  
111 South Capitol, 6<sup>th</sup> Floor  
Lansing, Michigan 48913

Dear Mr. Ringler:

In accordance with the State of Michigan, Financial Management Guide, Part VII, attached are a summary table identifying our responses and corrective action plans to address recommendations contained within the Office of the Auditor General's audit report of the Program Investigation Section Processes to Identify Improper Payments, Medical Services Administration, Department of Community Health.

Questions regarding the summary table or corrective action plans should be directed to me at (517) 373-1508 or [Myerspa@michigan.gov](mailto:Myerspa@michigan.gov).

Sincerely,

Pam Myers, Manager  
DCH Office of Audit

Enclosure

cc: Office of the Auditor General  
House Fiscal Agency  
Senate Fiscal Agency  
Executive Office  
DCH, Janet Olszewski  
DCH, Susan Kangas

House Appropriations Committee  
House Standing Committee  
Senate Appropriations Committee  
Senate Standing Committee  
DCH, Kurt Krause  
DCH, Paul Reinhart

PERFORMANCE AUDIT OF  
PROGRAM INVESTIGATION SECTION PROCESSES TO IDENTIFY  
IMPROPER PAYMENTS

MEDICAL SERVICES ADMINISTRATION  
DEPARTMENT OF COMMUNITY HEALTH

October 2003 through June 2007

AUDIT RESPONSE

Approved \_\_\_\_\_  
Jean K. Olszewski, Director  
Department of Community Health

Date: FEBRUARY 27, 2009



## AUDIT REPORT SUMMARY

DEPARTMENT: Community Health  
AUDIT PERIOD: October 2003 through June 2007  
REPORT DATED: September 2008

### DISPOSITION OF AUDIT RECOMMENDATIONS

<u>CITATIONS COMPLIED WITH</u>	<u>CITATIONS TO BE COMPLIED WITH</u>	<u>CITATIONS NOT COMPLIED WITH</u>
1		
2	2 *	
3		
4		
5		

2\* DCH expects to meet with the Managed Care Plan Division as time permits during FY09.  
Expected compliance date 9/30/09.

**Audit Response**  
**Program Investigation Section Processes to**  
**Identify Improper Payments**  
**Medical Services Administration**  
**Department of Community Health**  
**October 2003 through June 2007**

Recommendation 1:      Selection of Providers to Audit

We recommend that the Section improve its methodology for selecting Medicaid providers to audit.

Response:

DCH agrees there are opportunities for improving its methodology for selecting providers to audit and its process for determining when a follow-up audit is appropriate. DCH continues to explore ways to improve its capability to identify and pursue fraud and abuse. The Section's primary focus is on program integrity, and its goals are to educate providers on billing and to act as a deterrent for providers billing improperly. DCH believes this deterrent effect is best accomplished by auditing a variety of types and sizes of providers, not just those receiving the most money from Medicaid.

- DCH continues to consider other risk factors, such as error rates from prior audits and state wide utilization review results, when selecting hospitals for audit.
- As DCH continues to gain experience and information from its audits, particularly of hospitals, it has evaluated its selection criteria for initial and follow-up audits and made adjustments, as appropriate.
- Fraud alerts continue to be reviewed on a routine basis, and are referred to the data staff to do a SURS run if appropriate. DCH continues to document its reviews of fraud alerts.

Recommendation 2:      Managed Care Health Plans

We recommend that the Section improve its monitoring of Medicaid managed care health plans' efforts to identify potential improper payments, including fraud and other improper payments.

Response:

DCH agrees that it can improve its monitoring of Medicaid managed care health plans' efforts to identify fraud. The Department uses a variety of methods to monitor these efforts, including: a contract with the health plans that requires them to report cases of fraud and abuse; an annual on-site review by DCH staff with each health plan, using the health plan assessment tool developed by DCH and cited by CMS as a benchmark practice; and regular interaction with the health plans on a variety of subjects, including payments to health plan network providers.

- The new staff person who monitors the managed care health plans is busy learning all aspects of her job. She has been on site visits and has made contact with many if not all of the health plans.

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- DCH has not yet met with the Managed Care Plan Division to determine if it is possible to share improper payment information using the selected criteria. DCH modified their site tool for FY08; the tool now requests that health plans report the number of preliminary investigations. During FY09 as part of DCH staff site visits of the Plans, the number of preliminary investigations performed on providers will be requested and a random sample will be reviewed. In addition, the number and names of providers that have been terminated or sanctioned by the Plan in the last year will be provided and reviewed.

Recommendation 3: Contractual Audits of Pharmacies

We recommend that the Section sufficiently monitor the contract audits of pharmacies serving Medicaid beneficiaries.

Response:

DCH agrees that it did not sufficiently monitor certain aspects of the audits of pharmacies serving Medicaid beneficiaries.

- The Section will monitor the timeliness of the work, but until the language in the contract is further clarified, timeliness could be an issue. DCH will be doing a new RFP that will begin in 2010; this new contract will further address the timeliness issue.
- DCH continues to document its monitoring efforts.

Recommendation 4: Questionable Pharmacy Medicaid Payments

We recommend that the Section sufficiently investigate potential improper Medicaid payments identified in audits of pharmacy providers as required by federal regulations.

Response:

DCH agrees that it did not sufficiently investigate potential improper Medicaid payments identified in audits of pharmacy providers, but disagrees that a negative response to an EOB necessarily represented a potential improper payment.

- DCH continues to send out all EOBs including pharmacies, therefore, any EOB received that questions the services is investigated.

Recommendation 5: Continuous Quality Improvement (CQI)

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We recommend that the Section improve its CQI processes related to identifying recoverable improper payments to Medicaid providers.

Response:

DCH agrees that the Section could improve its CQI efforts to identify recoverable improper payments.

- The Section was able to hire a third supervisor. This should help relieve some of the burden on the other supervisors and may give them time to work more with staff, once additional staff have been hired.
- The Section continues to notify the Medicaid policy section if a policy related issue is identified during a review. In addition, the Section is on the distribution listing for all new Medicaid policy, each policy is reviewed from an audit standpoint, and if appropriate changes are recommended.

Recommendation 6: Conflicts of Interest

We recommend that DCH improve its efforts to prevent and mitigate conflicts of interest by entities providing services to DCH.

Response:

DCH agrees it needs to improve its efforts to prevent or mitigate conflicts of interest by entities providing services to the Department.

- The Section continues to review PA decisions and audits at the increased rate. Sampling sizes continue to be reviewed and adjusted accordingly.
- DCH has started the RFP process to select a contractor to do pharmacy audits.