



Michigan
Office of the Auditor General
REPORT SUMMARY

Performance Audit

*Program Investigation Section Processes to
Identify Improper Payments
Bureau of Medicaid Financial Management
and Administrative Services
Medical Services Administration
Department of Community Health*

Report Number:
391-0704-05

Released:
September 2008

In fiscal year 2005-06, the Department of Community Health (DCH) paid \$7.8 billion for medical services rendered to Medicaid beneficiaries. The federal government recognized a risk that some fee-for-service and managed care Medicaid payments are fraudulent, abusive, or otherwise improper. One of the Program Investigation Section's primary functions is to conduct post-payment audits to identify potential fraud and improper payments to medical providers. In fiscal year 2005-06, the Section reported \$6.9 million in identified potential improper payments.

Audit Objective:

To assess the effectiveness of the Section's efforts to identify improper payments to Medicaid providers.

Audit Conclusion:

We concluded that the Section's efforts to identify improper payments to Medicaid providers were moderately effective. We noted one material condition (Finding 1) and five reportable conditions (Findings 2 through 6).

Material Condition:

The Section needs to improve its methodology for selecting Medicaid providers to audit. An improved methodology should enhance the effectiveness and integrity of the State's Medicaid Program and increase the Section's identification of potential improper payments. (Finding 1)

Reportable Conditions:

The Section needs to improve its monitoring of Medicaid managed care health plans' efforts to identify potential improper payments, including fraud and other improper payments (Finding 2).

The Section did not sufficiently monitor the contract audits of pharmacies serving Medicaid beneficiaries (Finding 3).

The Section did not sufficiently investigate potential improper Medicaid payments identified in audits of pharmacy providers as required by federal regulations (Finding 4).

The Section should improve its continuous quality improvement processes related to identifying recoverable improper payments to Medicaid providers (Finding 5).

DCH needs to improve its efforts to prevent or mitigate conflicts of interest by entities providing services to DCH (Finding 6).

Noteworthy Accomplishments:

In June 2003, Section staff identified possible fraudulent billing practices by a pharmacy that supplied medication to long-term care facilities. The case was referred to the Department of Attorney General. Section staff assisted with the resulting Department of Attorney General investigation by providing data and analyses that helped the Department of Attorney General identify \$15.9 million in improper payments and resulted in a 2006 Attorney General settlement with the provider.

Also, in May 2003, the Centers for Medicare and Medicaid Services (CMS) conducted a review of Michigan's Medicaid Program integrity policies and procedures. CMS reported that the Section had implemented a benchmark practice that CMS believed to be beneficial to other states if implemented. The Section implemented a fraud and abuse on-site review assessment tool for State Medicaid managed care health plans.

~ ~ ~ ~ ~

Agency Response:

Our audit report contains 6 findings and 6 corresponding recommendations. DCH's preliminary response indicated that it agrees with all of the recommendations.

~ ~ ~ ~ ~

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: <http://audgen.michigan.gov>



Michigan Office of the Auditor General
201 N. Washington Square
Lansing, Michigan 48913

Thomas H. McTavish, C.P.A.
Auditor General

Scott M. Strong, C.P.A., C.I.A.
Deputy Auditor General