



MICHIGAN

OFFICE OF THE AUDITOR GENERAL

AUDIT REPORT

PERFORMANCE AUDIT
OF

COMMUNITY HEALTH AUTOMATED MEDICAID
PROCESSING SYSTEM (CHAMPS) CLAIMS EDITS

DEPARTMENT OF COMMUNITY HEALTH AND
DEPARTMENT OF TECHNOLOGY, MANAGEMENT, AND BUDGET

January 2015



Doug A. Ringler, CPA, CIA
AUDITOR GENERAL

The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.

– Article IV, Section 53 of the Michigan Constitution

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Performance Audit

Community Health Automated Medicaid Processing System (CHAMPS) Claims Edits Department of Community Health (DCH) and Department of Technology, Management, and Budget (DTMB)

Report Number:
391-0525-14

Released:
January 2015

CHAMPS is an automated information system that DCH and DTMB implemented in October 2009 to process Medicaid claims and payments. During processing, claims are subjected to 1,105 edit checks, such as provider and beneficiary eligibility, procedure validity, claim duplication, frequency limitations for services, and validity of service. The State contracted with a system development contractor to design, develop, implement, and maintain CHAMPS, including claims edits. DCH and DTMB are responsible for overseeing the contractor's performance. CHAMPS processed 97 million medical claims totaling \$19.1 billion during our audit period.

Audit Objective			Audit Conclusion
Objective 1: To assess the effectiveness of DCH and DTMB's efforts to ensure logical access controls over CHAMPS claims edit rules.			Moderately effective
Findings Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DCH, in conjunction with DTMB, did not effectively monitor the contractor's logical access controls over the CHAMPS claims edit rules application to help ensure that claims edit rules were appropriately accessed and protected from unauthorized modification, loss, and disclosure. The contractor did not maintain system authorization forms, enforce strong password policies, enforce session management controls, and activate access logs or audit logs (Finding 1).		X	Agree
DCH did not restrict user access to modify CHAMPS claims edit dispositions consistent with users' assigned job responsibilities. Four users had access that was not consistent with their assigned job responsibilities (Finding 2).		X	Agree

Audit Objective			Audit Conclusion
Objective 2: To assess the effectiveness of DCH and DTMB's efforts to implement change management controls over CHAMPS claims edits.			Moderately effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DCH and DTMB had not developed a comprehensive process to help ensure that program changes to CHAMPS claims edits are managed consistently and properly implemented for medical claims payment processing. DCH and DTMB had not documented change control standards and procedures, certain approvals, reconciliations, impact assessments, and user acceptance test procedures or results (<u>Finding 3</u>).		X	Agree

Audit Objective			Audit Conclusion
Objective 3: To assess the effectiveness of DCH and DTMB's efforts to evaluate and document their use of CHAMPS claims edits.			Effective
Finding Related to This Audit Objective	Material Condition	Reportable Condition	Agency Preliminary Response
DCH had not implemented adequate internal control over the creation of CHAMPS claims edit dispositions. Inappropriate CHAMPS claims edit dispositions may be created and applied to medical claims payments but go undetected by management (<u>Finding 4</u>).		X	Agree

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

Doug A. Ringler, CPA, CIA
Auditor General

Laura J. Hirst, CPA
Deputy Auditor General



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • <http://audgen.michigan.gov>

Doug A. Ringler, CPA, CIA
Auditor General

January 16, 2015

Mr. Nick Lyon, Director
Department of Community Health
Capitol View Building
Lansing, Michigan
and
Mr. David B. Behen
Director, Department of Technology, Management, and Budget
Chief Information Officer, State of Michigan
Lewis Cass Building
Lansing, Michigan

Dear Mr. Lyon and Mr. Behen:

This is our report on the performance audit of Community Health Automated Medicaid Processing System (CHAMPS) Claims Edits, Department of Community Health and Department of Technology, Management, and Budget.

This report contains our report summary; a description; our audit objectives, scope, and methodology and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and a glossary of abbreviations and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agencies' responses at the end of our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agencies develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agencies to take additional steps to finalize the plan.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink that reads "Doug Ringler". The signature is written in a cursive, flowing style.

Doug Ringler
Auditor General

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**COMMUNITY HEALTH AUTOMATED MEDICAID PROCESSING SYSTEM (CHAMPS)
CLAIMS EDITS
DEPARTMENT OF COMMUNITY HEALTH AND
DEPARTMENT OF TECHNOLOGY, MANAGEMENT, AND BUDGET**

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Description

The Community Health Automated Medicaid Processing System (CHAMPS) is an automated information system that the Department of Community Health (DCH) and the Department of Technology, Management, and Budget (DTMB) implemented in October 2009 to process Medicaid claims and payments. Medicaid is a program that helps certain individuals and families with low incomes and limited resources pay for some or all of their medical bills. CHAMPS provides contract management and payment processing for managed care services, behavioral health services, inpatient hospital services, outpatient hospital services, physician services, maternity services, mental health care, and community-based care home services. During our audit period, CHAMPS processed 97 million medical claims totaling \$19.1 billion in Medicaid payments.

Providers submit electronic claims and paper claims, which are converted to electronic format, to DCH for processing and payment. During processing, claims are subjected to 1,105 edit checks, such as provider and beneficiary eligibility, procedure validity, claim duplication, frequency limitations for services, and validity of service. If a claim fails any of the edits, CHAMPS assigns a disposition to the claim that determines how CHAMPS

processes the claim. Following is a list of the CHAMPS edit dispositions, including the number of corresponding edits with that disposition:

Edit Disposition	Definition	Number of Edits	Claim Type
Ignore	CHAMPS pays the claim despite the edit result.	313	Fee-for-service*
Suspend	The edit flags the claim for manual review. DCH is responsible for reviewing the claim and determining, based on policy guidance and established written instructions, whether it is appropriate to deny or pay the claim.	223	Fee-for-service
Reject	The edit rejects the claim and the claim is reported back to the provider.	190	Encounter*
Deny	The edit rejects the claim and the provider does not receive payment.	187	Fee-for-service
Pay and report	CHAMPS pays the claim and reports the edit to the provider.	136	Fee-for-service
Informational	CHAMPS pays the claim.	51	Fee-for-service
Accept	The edit accepts the claim.	5	Encounter

The State contracted with a system development contractor to design, develop, implement, and maintain CHAMPS, including claims edits. The vendor also provides configuration management, operations support, and database administration for CHAMPS. In September 2013, DCH extended the vendor's contract through September 2018. The total value of the vendor's contract to design, develop, implement, and maintain CHAMPS is \$381.4 million.

* See glossary at end of report for definition.

Audit Objectives, Scope, and Methodology and Agency Responses and Prior Audit Follow-Up

Audit Objectives

Our performance audit* of Community Health Automated Medicaid Processing System (CHAMPS) Claims Edits, Department of Community Health (DCH) and Department of Technology, Management, and Budget (DTMB), had the following objectives:

1. To assess the effectiveness* of DCH and DTMB's efforts to ensure logical access controls* over CHAMPS claims edit rules.
2. To assess the effectiveness of DCH and DTMB's efforts to implement change management controls* over CHAMPS claims edits.
3. To assess the effectiveness of DCH and DTMB's efforts to evaluate and document their use of CHAMPS claims edits.

Audit Scope

Our audit scope was to examine the records and processes related to the Department of Community Health and Department of Technology, Management, and Budget's management of Community Health Automated Medicaid Processing System (CHAMPS) claims edits. Our audit scope did not include verifying that CHAMPS claims edits were properly or accurately applied to all submitted medical claims. We conducted this performance audit 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. Our audit procedures, which included a preliminary survey, audit fieldwork, report preparation, analysis of agency responses, and quality assurance, generally covered the period October 1, 2012 through May 31, 2014.

* See glossary at end of report for definition.

Audit Methodology

We conducted a preliminary survey to gain an understanding of CHAMPS claims edits and to establish our audit objectives and methodology. Our preliminary survey included:

- Identifying applicable laws, regulations, policies, procedures, and other reference materials.
- Interviewing DCH, DTMB, and contractor staff.
- Reviewing the contract between the State and the CHAMPS contractor.
- Reviewing selected documentation, records, and reports.
- Observing live system demonstrations.

To accomplish our first objective, we:

- Interviewed DCH and DTMB staff to obtain an understanding of the process for monitoring the contractor's compliance with DTMB policies and procedures.
- Reviewed CHAMPS claims edit rules application user manuals.
- Reviewed and assessed the appropriateness of contractor user accounts.
- Reviewed CHAMPS claims edit rules application access logs and user audit logs.
- Reviewed the appropriateness of user access to CHAMPS functions related to making changes to claims processing edits.
- Identified the databases on which the CHAMPS claims edit rules resided. Those databases were reviewed as part of our performance audit of Statewide Oracle Database Controls, Department of Technology, Management, and Budget (071-0565-14). We considered the results of that audit in forming our audit conclusion.

To accomplish our second objective, we:

- Interviewed DCH, DTMB, and contractor staff to obtain an understanding of the process for making program changes to CHAMPS claims edits.
- Reviewed applicable information technology standards and guidelines related to change management controls.

- Reviewed selected program change requests* related to CHAMPS claims edits.

To accomplish our third objective, we:

- Identified the population of CHAMPS claims edits.
- Interviewed DCH staff to obtain an understanding of CHAMPS claims edits, including edit dispositions.
- Selected and reviewed a sample of 42 claims edits from a population of 1,115 to determine if sufficient documentation existed to support the rationale for establishing the edits' disposition.
- Obtained an understanding of the claims edit alternate disposition process and reviewed a sample of 14 claims edit alternate dispositions from a sub-sampled population of 37.
- Reviewed a listing of operational and nonoperational claims edits.
- Assessed the impact that maintaining and storing claims edits had on the State's data warehouse and on the timely processing of claims.

We based our audit conclusions on our audit efforts as described in the preceding paragraphs and the resulting reportable conditions* noted in the comments, findings, recommendations, and agency preliminary responses section. Reportable conditions are less severe than a material condition* but represent opportunities for improvement and deficiencies in internal control*.

When selecting activities or programs for audit, we direct our efforts based on risk and opportunities to improve the operations of State government. Consequently, we prepare our performance audit reports on an exception basis.

Agency Responses and Prior Audit Follow-Up

Our audit report contains 4 findings and 4 corresponding recommendations. DCH and DTMB's preliminary response indicates that they agree with all of the recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agencies' written comments and oral discussion at the end of our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and the State of Michigan

* See glossary at end of report for definition.

Financial Management Guide (Part VII, Chapter 4, Section 100) require DCH and DTMB to develop a plan to comply with the audit recommendations and submit it within 60 days after release of the audit report to the Office of Internal Audit Services, State Budget Office. Within 30 days of receipt, the Office of Internal Audit Services is required to review the plan and either accept the plan as final or contact the agencies to take additional steps to finalize the plan.

We released our prior performance audit of Community Health Automated Medicaid Processing System (CHAMPS) Security and Access Controls, Department of Community Health and Department of Technology, Management, and Budget (391-0591-13), in October 2013. Within the scope of this audit, we followed up 1 of the 3 prior audit recommendations. We repeated the prior audit recommendation in Finding 2 of this audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS,
AND AGENCY PRELIMINARY RESPONSES

LOGICAL ACCESS CONTROLS OVER CHAMPS CLAIMS EDIT RULES

COMMENT

Background: Our review was limited to logical access controls, including authorization and authentication, that protect Community Health Automated Medicaid Processing System (CHAMPS) claims edit rules from unauthorized access. The specific systems we reviewed included the CHAMPS claims edit rules application, the applicable databases on which the rules reside, and the CHAMPS functionality that allows users to modify edit dispositions.

Audit Objective: To assess the effectiveness of the Department of Community Health (DCH) and Department of Technology, Management, and Budget's (DTMB's) efforts to ensure logical access controls over CHAMPS claims edit rules.

Audit Conclusion: Moderately effective.

Factors leading to this conclusion included the:

- Risk that inappropriate logical access may allow for inappropriate changes to claims edits and dispositions, which could ultimately impact medical claim payments.
- Great extent of the State's reliance on the system development contractor to design, develop, implement, and maintain CHAMPS claims edits.
- Reportable conditions related to access controls monitoring and controls over the disposition of claims edits.
- Results noted in our performance audit of Statewide Oracle Database Controls, Department of Technology, Management, and Budget (071-0565-14) pertaining to the databases on which the CHAMPS claims edit rules reside.

FINDING

1. Access Controls Monitoring

DCH, in conjunction with DTMB, did not effectively monitor the contractor's logical access controls over the CHAMPS claims edit rules application to help ensure that claims edit rules were appropriately accessed and protected from unauthorized modification, loss, and disclosure.

Control Objectives for Information and Related Technology* (COBIT) states that management should periodically review overall compliance with contract requirements and address identified issues. The contract between the State and the system development contractor requires the contractor to adhere to all applicable technology standards established by DTMB.

The CHAMPS claims edit rules application is used to create and modify claims edit rules. The claims edit rules application consists of two significant components that the contractor directly accesses to create and modify claims edit rules. The first component is the rules editor to create and modify claims edit rules. The second component is the administrative component to define and create the basic building blocks of a claims edit rule as well as manage and administer the claims edit rules editor. Our review of logical access controls over the CHAMPS claims edit rules application disclosed:

- a. DCH, in conjunction with DTMB, did not ensure that the contractor documented and maintained the authorization and approval of contractor access to the CHAMPS claims edit rules application. DTMB Technical Standard 1335.00.03 requires system owners to manage system accounts, which includes requiring appropriate approvals for requests to establish user accounts. Documenting the authorization and approval of access helps to ensure that only appropriate individuals have access to the CHAMPS edit rules and prevents unauthorized changes to claims edit rules.
- b. DCH, in conjunction with DTMB, did not ensure that the contractor implemented strong password policies for the claims edit rules application. Specifically, we noted:
 - (1) The contractor did not enforce DTMB password rules. DTMB Technical Standard 1335.00.03 requires that passwords be a minimum of eight characters in length and contain a combination of uppercase, lowercase, numeric, and special characters.
 - (2) The contractor did not require its employees to change their initial password at first use of the claims edit rules application. DTMB Technical Standard 1335.00.03 requires that users immediately change a temporary password to a more secure permanent password.

* See glossary at end of report for definition.

- (3) The contractors' employees were never required to change their passwords. DTMB Technical Standard 1335.00.03 requires that passwords be changed a maximum of every 90 days.
 - (4) The contractor did not require its employees to enter a usercode and password at each log-in to access the claims edit rules editor. Contractor employees had the option to save their log-in credentials, which eliminated the requirement to enter a usercode and password each time they used the claims edit rules editor. DTMB Technical Standard 1335.00.03 requires password authentication at each log-in. The contractor was not able to specify how many of its employees had saved their log-in credentials.
- c. DCH, in conjunction with DTMB, did not ensure that the contractor implemented strong session management control policies for the claims edit rules application. We noted:
- (1) The contractor did not limit the number of consecutive invalid log-in attempts. DTMB Technical Standard 1335.00.03 requires a limit of five consecutive invalid log-in attempts.
 - (2) The contractor did not require claims edit rules application sessions to lock after a specified period of inactivity. DTMB Technical Standard 1335.00.03 requires sessions to lock out a usercode after a specified period of inactivity.
- d. DCH, in conjunction with DTMB, did not monitor claims edit rules application access logs or audit logs. Our review disclosed that the contractor did not activate the logs for the administrative component. DTMB Technical Standard 1335.00.03 requires the system owner to monitor logs for improper usage of information system accounts.

RECOMMENDATION

We recommend that DCH, in conjunction with DTMB, effectively monitor the contractor's logical access controls over the CHAMPS claims edit rules application.

AGENCY PRELIMINARY RESPONSE

The Departments provided us with the following response:

DCH and DTMB agree that they did not effectively monitor the contractor's logical access controls over the CHAMPS claims edit rules application.

- a. *The contractor has incorporated access and approval to the claims edit rules application into the formal approval process already in place through the database access request form.*
- b., c. *The February 2015 CHAMPS Release will contain the following enhancements:*
 - *Enforce strong password rules.*
 - *Require users to change their initial password at first use of the claims edit rules application.*
 - *Require users to periodically change their passwords.*
 - *Require its employees to enter a user code and password at each log-in to access the claims edit rules editor. The ability to save their log-in credentials will be removed.*
 - *Limit the number of consecutive invalid log-in attempts.*
 - *Lock after a specified period of inactivity.*
- d. *Administrative logging has now been activated for all rules engine components. In addition, the contractor will provide the user access and audit logs to DCH and DTMB on a quarterly basis.*

FINDING

2. Controls Over the Disposition of Claims Edits

DCH did not restrict user access to modify CHAMPS claims edit dispositions consistent with users' assigned job responsibilities. As a result, these users may intentionally or unintentionally modify the disposition of claims processing edits, causing improper medical claims payments.

According to the Federal Information System Controls Audit Manual* (FISCAM), access to sensitive transactions and activities should be limited to those users with a valid business purpose and follow the principle of least privilege*.

Medicaid claims are subjected to numerous claims processing edits within CHAMPS that evaluate the validity of the claims. Claims processing edits test the various elements of a claim for adherence to established rules and assign a disposition to the claim. Claims processing edits can result in one of several dispositions, such as accepted claim, rejected claim, or claim suspended for manual review.

Our review disclosed that DCH granted 4 (27%) of 15 users the ability to modify the disposition of a Medicaid claims processing edit who did not require this level of access to perform their job responsibilities. When an edit disposition is changed, it impacts all future processed claims. To help ensure that claims are assigned proper edit dispositions, DCH should restrict the ability to modify the disposition of a claims processing edit to only appropriate users.

RECOMMENDATION

We again recommend that DCH restrict user access to modify CHAMPS claims edit dispositions consistent with users' assigned job responsibilities.

AGENCY PRELIMINARY RESPONSE

The Departments provided us with the following response:

DCH agrees that it did not always restrict access to modify CHAMPS claims edits dispositions consistent with users' assigned jobs responsibilities.

DCH has modified security profiles in CHAMPS to remove the Edit Dispositions functionality from profiles where it is not required. DCH is requiring that two of the users submit new requests through its Database Security Application (DSA) which will remove the access to the profile that includes this role. The other two user accounts have had the access removed. DCH is performing an ad-hoc reconciliation of user accounts between the DSA and CHAMPS to ensure that all users have the appropriate access. This reconciliation process will be done on a monthly basis.

* See glossary at end of report for definition.

CHANGE MANAGEMENT CONTROLS OVER CHAMPS CLAIMS EDITS

COMMENT

Background: For purposes of our review, a change is defined as the addition, modification, or removal of a CHAMPS claims edit. Changes to CHAMPS claims edits primarily occurred because of creation or modification of DCH policy and/or federal laws and regulations governing medical claim payments. Our review was limited to assessing DCH and DTMB's process to assess, document, and approve changes to CHAMPS claims edits.

Audit Objective: To assess the effectiveness of DCH and DTMB's efforts to implement change management controls over CHAMPS claims edits.

Audit Conclusion: Moderately effective.

Factors leading to this conclusion included the:

- Risk that desired results and outcomes may not be achieved if the change management process is not properly controlled.
- Lack of standards and policies to allow for uniformity and continuity in the change management process.
- Risk of unauthorized changes going undetected because of lack of proper controls.
- Reportable condition related to change management controls.

FINDING

3. Change Management Controls

DCH and DTMB had not developed a comprehensive process to help ensure that program changes to CHAMPS claims edits are managed consistently and properly implemented for medical claims payment processing.

COBIT states that managing changes helps enable the fast and reliable delivery of changes and mitigates the risk of negatively impacting the stability or integrity* of

* See glossary at end of report for definition.

the changed environment. Changes should be managed in a controlled manner, including instituting change standards and procedures, evaluating impact assessments, and documenting prioritization and authorization.

Our review of DCH and DTMB's change management process related to CHAMPS claims edits and our examination of selected change requests disclosed:

- a. DCH and DTMB had not established documented change control standards and procedures. Change control standards and procedures should define the process for requesting, approving, implementing, logging, and testing program and data changes. The use of standards and procedures helps ensure that management's intent is clearly communicated to all individuals responsible for production source code and data change controls.
- b. DCH did not document the change requests to be designed and developed as part of its quarterly change management release* process for 5 of 9 releases reviewed, including its rationale for why the selected change requests were selected for implementation and subsequent approval by management. COBIT states that management should evaluate, prioritize, and authorize all changes. Without approved documentation of the change request, DCH cannot ensure that only the appropriate change requests are designed and developed for implementation in the CHAMPS production environment.
- c. DCH and DTMB had not formally documented management's "go-live" approval for any quarterly releases, which gives the contractor permission to deploy the release into the CHAMPS production environment. Also, DCH and DTMB management's "go-live" approval did not specify which change requests it approved for deployment. COBIT states that all changes should be formally approved. Once a release is deployed to the CHAMPS production environment, the changes impact medical claim payments. As a result, it is critical that management clearly document which change requests it approved for deployment.
- d. DCH and DTMB had not conducted a reconciliation of approved change requests to the change requests deployed into the CHAMPS production environment, as recommended by COBIT.

* See glossary at end of report for definition.

- e. DCH and DTMB had not established a consistent process to document impact assessment and sufficiently describe the potential risks associated with all changes. COBIT states that impact assessments for all changes should be managed in a controlled manner. The assessment determines the impact on business processes and information technology services and assesses whether change will adversely affect the operational environment and introduce unacceptable risk. Completing an impact assessment allows management to make informed decisions about proposed changes.
- f. DCH and DTMB had not established a consistent process to document user acceptance testing (UAT) procedures and results for all change requests. COBIT states that test procedures should be created that align with the test plan and allow DCH and DTMB to evaluate the change in real-world conditions. Our review disclosed that DCH had not documented UAT procedures for 2 (8%) of 26 change requests reviewed. Our review also disclosed that DCH had not documented UAT results for 11 (42%) of 26 change requests reviewed. Without a consistent process, DCH and DTMB cannot ensure that all change requests are properly tested prior to implementation or that audit trails of test results are maintained.
- g. DCH and DTMB had not established a process to document approval of change request design requirements for change requests used to fix a system defect. COBIT states that all changes should be formally approved to ensure that only approved change design specifications are implemented.

RECOMMENDATION

We recommend that DCH and DTMB develop a comprehensive process to help ensure that program changes to CHAMPS claims edits are managed consistently and properly implemented for medical claims payment processing.

AGENCY PRELIMINARY RESPONSE

The Departments provided us with the following response:

DCH and DTMB agree that they had not developed a comprehensive change management process for making program changes to CHAMPS claims edits.

- a. DCH and DTMB will build upon existing documentation that addresses various change control standards and procedures, and ensure consolidation of these documented change control standards and procedures. This documentation will further be archived, reviewed, and clearly communicated and applied to all individuals responsible for production source code and data change controls.*
- b. DCH and DTMB will document approval of change requests to be designed and developed as part of change management release processes, and further document 'rationale' for why the selected change requests were approved for design and development. A master template will be introduced and utilized to document and track the approval process and archived in a visible location for future retrieval. Additional rationale will be also captured in the Rational ClearQuest tool for tracking and reporting purposes.*
- c. DCH will formally document "go-live" approval for each CHAMPS release, and specifically document which change requests were actually approved for deployment at the time of approval. The same master template applied in (b.) will be introduced and utilized to document and track the approval process and archived in a visible location for future retrieval.*
- d. DCH and DTMB will conduct a post-"go-live" reconciliation of approved change requests to the change requests deployed into the CHAMPS production environment. Management will review both lists to ensure that the approved change requests are reconciled to the release notes published by the contractor after the implementation.*
- e. DCH will establish a consistent process to document impact assessments and sufficiently describe the potential risks associated with all changes. However, not all components of the process will be completed for all changes. For example, if a system change is to apply a screen change or fixing defects that impact a screen's display, it would be an inefficient use of staff resources to require documenting system impacts and potential risks.*

DCH will consistently document impacts and risks for system changes when there is a potential for material implications.

- f. DCH and DTMB will establish a consistent process to document user acceptance test (UAT) procedures and results for all change requests. The process will take into account the changes being reviewed through UAT and limited staff resources, so resources are used efficiently based on the change being tested. The documentation will reside in the existing change request repository, Rational ClearQuest.*
- g. DCH and DTMB will establish a process to document approval of change requests used to fix a system defect. Defect change scope will be reviewed in Tier 1 meetings and approved and documented through meeting minutes. Minutes will be archived in a visible location for future retrieval.*

USE OF CHAMPS CLAIMS EDITS

COMMENT

Background: Claims are subjected to 1,105 edit checks during processing, such as provider and beneficiary eligibility, procedure validity, claim duplication, frequency limitations for services, and validity of service. If a claim fails any of the edits, CHAMPS assigns a disposition to the claim that determines how CHAMPS processes the claim.

Our review was limited to assessing the effectiveness of DCH and DTMB's efforts to evaluate the cost-benefit to maintain, apply, and store a large number of edits with ignore and informational dispositions. Also, our review was limited to assessing the effectiveness of DCH and DTMB's efforts to document their rationale for establishing edit default and alternate dispositions.

Audit Objective: To assess the effectiveness of DCH and DTMB's efforts to evaluate and document their use of CHAMPS claims edits.

Audit Conclusion: Effective.

Factors leading to this conclusion included:

- The number of existing claims edits does not directly impact the State's payment to the contractor.
- Removing the large number of edits with ignore and informational dispositions would be costly and time consuming.
- The cost to maintain and store data edits with ignore and informational dispositions is low.
- DCH generally documented its rationale for establishing edit default and dispositions.
- The reportable condition related to CHAMPS claims edit dispositions was not significant enough to modify our conclusion because of the preceding factors.

FINDING

4. CHAMPS Claims Edit Dispositions

DCH had not implemented adequate internal control over the creation of CHAMPS claims edit dispositions. As a result, DCH cannot ensure that claim edit dispositions (e.g., deny, reject, and suspend) are properly documented, approved, or reconciled, which may allow inappropriate edit dispositions to go undetected by management and ultimately impact medical claims payments.

COBIT states that changes relating to business processes and applications should be managed in a controlled manner, including change procedures, authorization, and documentation.

When a medical claim is processed through CHAMPS, it is assigned an edit and a corresponding edit disposition which indicates how the claim will proceed, such as to deny the claim or suspend payment on the claim. All CHAMPS claims edits have one default disposition that is applied to all claims processed against the edit, unless an alternate disposition was established. DCH can establish one or more alternate dispositions for each CHAMPS claims edit. During processing, alternate dispositions instruct the system to bypass the default disposition, resulting in application of only the alternate disposition. Alternate dispositions can be created for only specific claim types or categories, or they can be created to apply to all claims. DCH employees can create alternate dispositions directly in CHAMPS. CHAMPS claims edit alternate dispositions are managed by two DCH divisions.

The DCH Medicaid Payments Division manages alternate dispositions for fee-for-service claims, and the DCH Actuarial Division manages alternate dispositions for encounter claims from managed care entities.

Our review of the use of alternate dispositions disclosed:

- a. The DCH Actuarial Division had not established written procedures for creating alternate dispositions. Written procedures help ensure that employees have detailed knowledge of their responsibilities and serve as a basis to ensure that employees consistently and properly conduct operations.
- b. Neither DCH division had established a post-review process to ensure that management's preapproved alternate disposition requests were correctly entered into CHAMPS by the requesting user and that only management-approved alternate dispositions were created. Without management review and approval, inappropriate edit disposition additions may go undetected and impact medical claims payment.

CHAMPS users obtain management preapproval for creating new alternate dispositions and then access CHAMPS to create the alternate disposition, which is immediately active in the CHAMPS production environment. However, there is no subsequent management review to ensure that the management preapproved alternate disposition was properly entered into CHAMPS by the requesting user. A post-review process is essential to ensure that the proper alternate edit was created and that the default disposition was not intentionally or unintentionally changed.

- c. Neither division required the requesting user to include specific alternate disposition requirements within the alternate disposition request. As a result, we were unable to determine if the intended alternate disposition requirements were implemented in CHAMPS. Without a well-defined request, misunderstandings between the user and manager could occur resulting in an inappropriately designed alternate disposition. For example, when the requesting user accesses CHAMPS to create an alternate disposition, the user must select an alternate edit claim category, claim type, program, start date, and end date. However, DCH's process does not require the user to specify all of these details in the initial request for management preapproval.

- d. DCH did not maintain documentation to support 9 (64%) of 14 alternate dispositions sampled because documentation was not required under DCH's process. As a result, we were unable to identify the alternate disposition request and determine if management preapproved the request.

RECOMMENDATION

We recommend that DCH implement adequate internal control over the creation of CHAMPS claims edit dispositions.

AGENCY PRELIMINARY RESPONSE

The Departments provided us with the following response:

DCH agrees that it had not always implemented adequate internal control over the creation of CHAMPS claims edit alternate dispositions.

- a. *DCH has created and implemented written procedures for employees to follow including management review and documentation to consistently carry out this process.*
- b. *DCH will request that its contractor develop a reporting mechanism that enables managers to verify the appropriateness and accuracy of alternate dispositions entered in CHAMPS.*
- c. *DCH will revise the current request form to include all necessary requirements to create an alternative disposition.*
- d. *DCH has implemented a "Decision Document" form which is uploaded to SharePoint. SharePoint tracks the approval process. DCH will request that our contractor develop a reporting mechanism that enables managers to verify the appropriateness and accuracy of alternate dispositions entered in CHAMPS.*

GLOSSARY

Glossary of Abbreviations and Terms

access controls	Controls that protect data from unauthorized modification, loss, or disclosure by restricting access and detecting inappropriate access attempts.
CHAMPS	Community Health Automated Medicaid Processing System.
change management controls	Controls that ensure that program, system, or infrastructure modifications are properly authorized, tested, documented, and monitored.
change request	A formal proposal for a system change to be made that includes the details of the proposed change.
Control Objectives for Information and Related Technology (COBIT)	A framework, control objectives, and audit guidelines published by the IT Governance Institute as a generally applicable and accepted standard for good practices for controls over information technology.
DCH	Department of Community Health.
DSA	Database Security Application.
DTMB	Department of Technology, Management, and Budget.
effectiveness	Success in achieving mission and goals.
encounter claims	Claims submitted by the Medicaid Health Plan on behalf of its enrolled Medicaid beneficiaries.

Federal Information System Controls Audit Manual (FISCAM)	A methodology published by the U.S. Government Accountability Office (GAO) for performing information system control audits of federal and other governmental entities in accordance with <i>Government Auditing Standards</i> .
fee-for-service claims	Claims submitted by medical providers for services rendered to Medicaid beneficiaries.
integrity	Accuracy, completeness, and timeliness of data in an information system.
internal control	The organization, policies, and procedures adopted by management and other personnel to provide reasonable assurance that operations, including the use of resources, are effective and efficient; financial reporting and other reports for internal and external use are reliable; and laws and regulations are followed. Internal control also includes the safeguarding of assets against unauthorized acquisition, use, or disposition.
material condition	A matter that, in the auditor's judgment, is more severe than a reportable condition and could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
performance audit	An audit that provides findings or conclusions based on an evaluation of sufficient, appropriate evidence against criteria. Performance audits provide objective analysis to assist management and those charged with governance and oversight in using the information to improve program performance and operations, reduce costs, facilitate decision making by parties with responsibility to oversee or initiate corrective action, and contribute to public accountability.

principle of least privilege

A principle requiring that each subject be granted the most restrictive set of privileges needed for the performance of authorized tasks. Application of this principle limits the damage that can result from accident, error, or unauthorized use of an information system.

release

A collection of work requests that include enhancements, fixes, and infrastructure modifications and upgrades that are packaged for testing and deployment purposes. The State may also need to implement releases, as needed, to respond to urgent needs outside the regular schedule.

reportable condition

A matter that, in the auditor's judgment, is less severe than a material condition and falls within any of the following categories: an opportunity for improvement within the context of the audit objectives; a deficiency in internal control that is significant within the context of the audit objectives; all instances of fraud; illegal acts unless they are inconsequential within the context of the audit objectives; significant violations of provisions of contracts or grant agreements; and significant abuse that has occurred or is likely to have occurred.

UAT

user acceptance testing.

