

Legislative Audit Division

State of Montana



Report to the Legislature

December 1999

Performance Audit

Department of Public Health and Human Services (DPHHS)

Audit and Compliance Bureau

This report contains 13 recommendations addressing the changes and controls needed to strengthen the current quality assurance process. The report addresses:

- ▶ Performing additional planning and organizing.
- ▶ Establishing controls to ensure bureau units operate as intended.
- ▶ Performing on-going staffing and directing.

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Members of the performance audit staff hold degrees in disciplines appropriate to the audit process. Areas of expertise include business and public administration, statistics, economics, computer science, and engineering.

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December 1999

The Legislative Audit Committee
of the Montana State Legislature

We conducted a performance audit of the Audit and Compliance Bureau within the Quality Assurance Division at the Department of Public Health and Human Services. This bureau is responsible for various program oversight functions.

This report focuses on addressing changes and controls needed to strengthen the various bureau processes. The written response from the department is included at the end of the report.

We appreciate the cooperation and assistance of department staff during the audit.

Respectfully submitted,

(Signature on File)

Scott A. Seecat
Legislative Auditor

Legislative Audit Division

Performance Audit

Department of Public Health and Human Services (DPHHS)

Audit and Compliance Bureau

Members of the audit staff involved in this audit were Angie Grove, Susie Jensen, Jim Nelson, Kris Wilkinson, and Mary Zednick.

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Administrative Officials

**Department of Public
Health and Human
Services**

Laurie Ekanger, Director

Denzel Davis, Administrator, Quality Assurance Division

Erich Merdinger, Chief, Audit and Compliance Bureau

Introduction

The Legislative Audit Committee requested a performance audit of program oversight functions at the Department of Public Health and Human Services (DPHHS). This request resulted from legislative concerns with department operations. Specific questions were raised about whether the department has a system to identify internal problem areas, test program compliance, and correct control weaknesses. Audit work focused on those functions performed in the Audit and Compliance Bureau within the department.

Audit Objectives

Our audit objectives answered the following questions:

1. Are changes needed to strengthen the bureau's role?
2. Are there adequate process controls over bureau responsibilities?
3. Are additional controls needed to strengthen bureau staffing and directing?

What is the Purpose of the Audit Compliance Bureau?

The Audit and Compliance Bureau is located in the Quality Assurance Division within the Department of Public Health and Human Services (DPHHS). Various units within the bureau have defined roles or purposes which they followed prior to re-organization, however, no steps have been taken to address a common purpose or mission for overall bureau operations.

We noted examples where duties performed are completed because they were historically required but may not be as useful as in the past. In other cases, bureau operations are not being used to supplement other program oversight efforts.

Since re-organization, limited steps have been taken to evaluate the role and purpose of the Audit and Compliance Bureau. Changing federal regulations and oversight conducted in other divisions has not been addressed. We believe the department should revisit the role of the bureau to formally assess the functions needed and methods for coordinating with other DPHHS divisions.

Report Summary

Re-Allocate Bureau Resources in Some Units

Adequate operational planning should also include an examination of bureau resources to determine the cost-effectiveness of some functions. Since agency re-organization, formal evaluations have not been done to assess resource needs or the cost benefit of performing various bureau functions. The following examples highlight areas where additional resource or costs analysis is needed.

- ▶ Cost-effective alternatives for providing financial reviews currently provided by the Audit Unit have not be analyzed. In some cases, federal program financial controls tested by the Audit Unit could be contracted or additional reliance could be placed on other governmental audits completed as required by the Montana Single Audit Act (section 2-7-503, MCA).
- ▶ The department created a separate Benchmarking Unit within the Audit and Compliance Bureau to assist in performing this performance measurement. Divisions are not required to and do not use unit services.

Bureau planning should examine functions to determine if they provide cost effective benefits to bureau operations or if resources should be committed in other areas. Resources should be re-allocated to more cost-effective areas.

Strengthen Bureau Process Controls

The Audit and Compliance Bureau has not taken steps to formalize unit process or procedures. This has created noncompliance with existing statutes, processing delays, and inconsistencies in pursuing quality assurance cases. To address these concerns we examined process controls and made recommendations to the following bureau units:

- ▶ Surveillance and Utilization Review Subsystem (SURS) Unit.
 - Criteria needed for opening and closing cases.
 - Formalize case settlement criteria.
 - Administrative review procedures needed.
- ▶ Third Party Liability (TPL) Unit.
 - Formal cost-effectiveness methodology needed.
 - Develop policy and procedure manual.

- ▶ Program Compliance Unit.
 - Track compliance of dropped cases.
 - Formalize Medicaid Eligibility Pilot Project.

**Expand Use of
Electronic Information
Systems**

Audit and Compliance Bureau operations are not fully using electronic information systems in performing their duties. Two concerns were noted:

- ▶ Current systems are not relied upon.
- ▶ Systems used by other organizations are not employed.

This has resulted in inefficient use of resources and ineffective processes. For example, the SURS and the TPL Unit are not fully utilizing electronic systems at their disposal and do not take steps to ensure current systems are meeting their data research and processing needs. Information on the Medicaid Management Information System (MMIS) and Medstat, as well as new SURS software has not been used. Steps should be taken to identify and utilize effective electronic management information systems.

**Additional Controls
Needed Over Contracted
Services**

Several bureau units use services provided through private contracts to supplement their operations. For example, a company under contract with the TPL Unit collected approximately \$1.3 million in recoveries in calendar year 1998. Some SURS Unit duties were contracted out to address workload backlogs. SURS also contracts with various medical professionals to perform prior-authorization duties and to provide records/coding expertise. Although these contracts are responsible for critical bureau activities, minimal steps have been taken to manage these contracts.

Currently, the department spends over \$500,000 annually for contracted bureau services. Due to the critical nature of these services and the dollar amounts involved, we believe contract controls such as monitoring duties should be clarified and assigned to specific staff within the department to ensure contract obligations are met.

Report Summary

Bureau Staffing and Directing

A good system of staffing controls includes job descriptions which reflect actual duties performed, on-going supervision of staff activities, staff training, and periodic formal evaluations of employees. Although the department has policies addressing the duties and responsibilities of supervisory and management staff and has provided training on these duties, bureau management staff are not meeting these guidelines. For example, some staff have not received any performance appraisals for over five years. In addition, we noted several instances where different staff are performing the same duties but job descriptions and pay grades are at different levels.

Based on our audit work, it does not appear steps have been taken to implement a systematic approach to supervising bureau staff. In addition, the controls outlined in Chapter IV will not be effective if there is no development of staffing controls. To ensure controls are followed, bureau management should ensure supervisory staff are aware of their responsibilities and take steps to assure compliance with department management policies.

Role Re-assignment May be Needed

Role re-assignment is the design or re-design of staff roles that have been affected by process changes. This analysis is completed to ensure the responsibility and accountability of new roles accurately reflect the way work should be done when change is implemented. In this report suggestions have been made on re-evaluating the bureau's mission and re-allocating bureau resources. Taking these steps and incorporating these type of changes will significantly change staff roles within the new operation. Organizational changes may impact staff duties and responsibilities into new areas or unfamiliar responsibilities. When this occurs, the skills and capabilities of current staff may no longer meet the needs of the bureau.

Management will need to assess the capabilities of current staff to determine if they meet the proposed changes to bureau functions. A role re-assignment strategy document can be developed to outline the scope, training, and steps that should be taken to complete the role re-assignment process.

Chapter I - Introduction

Introduction

The Legislative Audit Committee requested a performance audit of program oversight functions at the Department of Public Health and Human Services (DPHHS). This request resulted from legislative concerns with department operations. Specific questions were raised about whether the department has a system to identify internal problem areas, test program compliance, and correct control weaknesses. Audit work focused on functions performed in the Audit and Compliance Bureau within the department.

Audit Objectives

Our audit objectives answered the following questions:

1. Are changes needed to strengthen the bureau's role?
2. Are there adequate process controls over bureau responsibilities?
3. Are additional controls needed to strengthen bureau staffing and directing?

Audit Scope

We examined the need for "re-engineering" designated program compliance review functions at DPHHS. This included identifying areas where additional planning or organizational changes could increase efficiency as well as strengthen the overall level of quality assurance. We concentrated on duties performed within the Audit and Compliance Bureau.

To determine the role of the bureau, we interviewed management staff in all department divisions. In addition, we identified which department programs were reviewed through Audit and Compliance Bureau operations. Department planning documents, budget book descriptions, and web-site information were also examined.

Testing included analyzing the efficiency and effectiveness of having some audit and compliance functions combined into one division. To examine this area, we reviewed department organization charts, strategic plans for agency re-organization, goals and objectives, and documentation from management staff. Interviews were held with various program staff.

Chapter I - Introduction

The second and third audit objectives were directed at assessing how management provides direction for bureau operations. Processes were examined in the following Audit and Compliance Bureau units:

- ▶ Surveillance and Utilization Review Subsystem (SURS) Unit.
- ▶ Third Party Liability (TPL) Unit.
- ▶ Program Compliance Unit.
- ▶ Audit Unit.
- ▶ Fraud & Recovery Unit.
- ▶ Benchmarking Unit.

Audit testing included reviewing files/procedures, interviewing staff, and contacting staff in other involved agencies. Testing of the TPL Unit was completed during a separate performance audit (98P-03).

Audit findings were summarized into overall department recommendations. Specific recommendations to each unit within the Audit Compliance Bureau were communicated with department and division management staff during the audit. Management responded to each of these issues and outlined steps for addressing concerns noted. Audit follow-up will examine each of these areas.

This audit was conducted in accordance with governmental auditing standards for performance audits.

Management Memorandums

During the course of this audit we discussed several additional issues with the department. These items are not included as recommendations in this report but were provided to the department as management memorandums. These issues included:

- ▶ Develop time frames to ensure expedient TPL application processing.
- ▶ Strengthen TPL Unit communication with county staff.
- ▶ Update the State Plan to reflect changes in TPL cost-effectiveness methodologies.
- ▶ Develop criteria for use of statistical sampling in SURS case reviews.

Chapter I - Introduction

- ▶ Assess the need for additional legal support for the SURS Unit.
- ▶ Transfer SURS accounts receivable duties to the Fraud and Recovery Unit.
- ▶ Strengthen Food Stamp and Medicaid eligibility by forming a corrective action panel.

Report Organization

This report is organized into five chapters. Chapter Two outlines basic background material for Audit and Compliance Bureau functions. Chapter Three discusses areas where additional planning is needed. Chapter Four outlines recommendations for establishing additional process controls. Chapter Five discusses additional steps needed to strengthen staffing and directing of bureau responsibilities.

Chapter II - Background

Introduction

The legislature created the Department of Public Health and Human Services (DPHHS) as a result of executive reorganization enacted by the 1995 Legislature. This reorganization consolidated related programs from the Departments of Social and Rehabilitation Services; Family Services; Health and Environmental Sciences; and Corrections and Human Services. To administer its designated assistance and service programs, the department organized into nine divisions. One of these division's, the Quality Assurance Division, was assigned responsibility for the administration of centralized program review functions. These functions are administered primarily in the Audit and Compliance Bureau within that division.

DPHHS Size and Complexity

DPHHS is the largest state agency, both in funding and FTE levels. Grant expenditures and benefits account for approximately 75 percent of total department expenditures. The following table notes department funding levels for fiscal year 2000-01.

Table 1
Total DPHHS Appropriations by Fund Type
FY 2000-01

General Fund	\$ 455,357,259
State/Other Special	\$ 89,093,693
Federal Special	\$1,102,078,985
Total	\$1,646,529,937

Source: Legislative Services Fiscal Report, 2001 Biennium.

This funding is provided to support a wide spectrum of department programs and projects. Programs include Medicaid, foster care, adoption, nursing home licensing, alcohol/drug abuse, vocational rehabilitation, child support enforcement, and public health functions. Size and complexity of these programs vary. For example, one family planning program served approximately 28,000 clients in fiscal year 1997-98 while another program, the Low-

Chapter II - Background

Income Energy Assistance Program, weatherized 1,966 homes. The clients served also covers a wide range of program recipients including disabled children, the elderly, single parents, and patients with infectious diseases. Department program services are generally provided through contracted agencies or private vendors. For example, there are over 6,500 Medicaid providers who serve department clients.

To administer these programs the department has approximately 2,700 employees across the state to perform various responsibilities and oversee all state institutions except prisons. Department institutional responsibilities include:

- ▶ Eastmont Human Service Center. (Glendive)
- ▶ Montana Chemical Dependency Center. (Butte)
- ▶ Montana State Hospital. (Warm Springs)
- ▶ Montana Veteran's Homes. (Columbia Falls and Miles City)

Audit and Compliance Bureau Organization

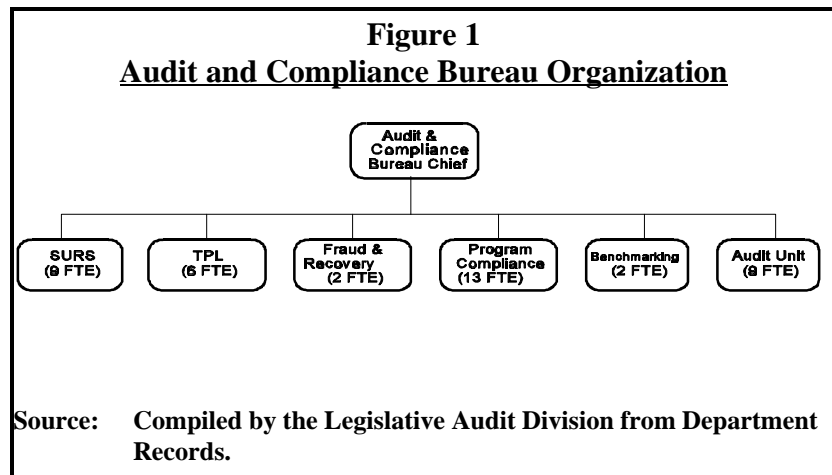
Functions and duties performed in the bureau are outlined below.

- ▶ The Surveillance and Utilization Review Subsystem (SURS) Unit monitors recipients and providers use of the Medicaid program and if needed pursues overpayment recovery.
- ▶ The Third Party Liability (TPL) Unit is responsible for reducing Medicaid costs by identifying third parties (Medicare/insurance companies) legally responsible for paying medical expenses of recipients.
- ▶ The Fraud and Recovery Unit collects monies resulting from client abuse of the Medicaid, Food Stamps, and state welfare programs.
- ▶ The Program Compliance Unit reviews Food Stamp and Medicaid recipients for compliance with eligibility rules and identifies determination errors.

Chapter II - Background

- ▶ The Benchmarking/Performance Measurement Unit provides training and information about performance measurement procedures to DPHHS employees.
- ▶ The Audit Unit provides financial/compliance reviews and related services to divisions of the department. Program compliance reviews are also completed upon request from other divisions.

The following figure outlines Audit and Compliance Bureau organization.



Bureau Funding

The bureau's expenditures for fiscal year 1998-99 were approximately \$2.1 million. Bureau funding is a mixture of State Special Revenue, Federal, and General Fund money. General fund support is provided as a match to federal Medicaid funds and state special revenue moneys.

Chapter III - Bureau Planning Needed

Introduction

Our first audit objective was to determine if changes were needed to strengthen the Audit and Compliance Bureau's role. Questions were raised regarding the bureau's role and functions following re-organization. The Audit and Compliance Bureau was established during the department's strategic planning process. Strategic planning generally includes:

- ▶ Designating a clear purpose or mission for operations to promote unity in operational activities.
- ▶ Examining resources and operational constraints that will affect ability to complete activities.
- ▶ Establishing priorities and work plans for various units to achieve designated goals.
- ▶ Determining a means of evaluating and controlling progress.

During audit planning, we found this planning has not been taken to "re-engineer" bureau operations when the various duties were centralized for department operations. The following sections outline areas where we believe additional planning is needed.

What is the Purpose of the Audit Compliance Bureau?

The Audit and Compliance Bureau is located within the Quality Assurance Division within the Department of Public Health and Human Services (DPHHS). Various units within the bureau have defined roles or purposes which they followed prior to re-organization; however, no steps have been taken to address a common purpose or mission for overall bureau operations.

For example, steps have not been taken to evaluate whether duties performed within the Audit and Compliance Bureau meet the needs of other department divisions. We noted examples where duties performed are completed because they were historically required but may not be as useful as in the past. In other cases, bureau operations are not being used to supplement other program oversight efforts. The following sections note specific examples where additional planning is needed to clarify these areas.

Chapter III - Bureau Planning Needed

Food Stamp Oversight

Currently, Food Stamp Program quality assurance is split between the Human & Community Services Division and the Program Compliance Unit in the Audit and Compliance Bureau. This separation of duties has created weaknesses in the process. Neither entity follows-up on previously identified concerns nor do they conduct oversight in problem areas identified by each other. Program weaknesses identified by the Program and Compliance Unit are not incorporated into program oversight in the other division. In addition, separating these duties into two divisions created unnecessary “paperwork shuffling.”

Coordinating Food Stamp quality assurance duties could improve compliance over Food Stamps and thereby improve Montana’s likelihood of receiving enhanced funding. The Food Stamp Program rewards states that reduce program errors below national levels by offering enhanced funding for administrative expenses. Montana could receive between \$250,000 and \$1.2 million. We believe findings identified in the Program Compliance Unit could provide useful information to program oversight in the other division. Currently, there is no formal method of coordinating Montana Food Stamp Oversight between the various functions.

Audit Unit Activities

Audit Unit activities include compliance and internal control testing of various DPHHS program providers. Although sixty percent of staff effort (approximately 9,500 hours per year) is spent in these activities, we noted the following concerns:

- ▶ Limited communication occurs with other department program staff. Staff in other divisions noted audit reviews are not always timely and, in some cases, were unaware of services provided by Audit Unit staff. Unit staff also noted they were unsure why they were performing some reviews. For example, reviews of county operations are conducted on two- or three-year cycles for one division; however, audit staff were unsure why these reviews were required or continued that frequently.
- ▶ Follow-up on reported findings is not occurring. No formal process has been established to ensure corrective action

Chapter III - Bureau Planning Needed

occurs or is resolved after reviews are completed. Staff in other divisions were unclear on who was responsible for corrective action.

- ▶ Testing is limited in scope which hinders identifying program weaknesses. Program staff noted frustration that providers and/or counties recently reviewed by Audit Unit staff had on-going potential program fraud or overpayments that was not identified during their reviews. In other areas, we found unit reviews were continued due to concerns raised by federal agencies. However, unit reviews did not specifically target potential problem areas.
- ▶ Audit Unit reviews overlap other governmental audits or program reviews. Concerns were raised that Audit Unit reviews duplicate audit testing completed in other governmental audits and could result in noncompliance with the Montana Single Audit Act.
- ▶ There is limited reliance placed on unit reviews. Program staff noted Audit Unit operations are used primarily for meeting financial reporting requirements and provide little assurance of program compliance.

Summary

Since re-organization, limited steps have been taken to evaluate the role and purpose of the Audit and Compliance Bureau. Changing federal regulations and oversight conducted in other divisions has not been addressed. We believe the department should revisit the role of the bureau to formally assess the functions needed and methods for coordinating with other DPHHS divisions.

Recommendation #1

We recommend the department “re-visit” the role and purpose of the Audit and Compliance Bureau to determine the functions needed and establish methods for coordinating with other divisions.

Chapter III - Bureau Planning Needed

Re-Allocate Bureau Resources in Some Units

Adequate operational planning should also include an examination of bureau resources to determine the cost-effectiveness of some functions. Since agency re-organization, formal evaluations have not been done to assess resource needs or the cost-benefit of performing various bureau functions. The following examples highlight areas where additional resource or costs analysis is needed.

- ▶ The bureau has not completed an analysis of SURS claims processing assessment procedures, even though federal agencies have indicated these assessments are no longer cost-effective and should not be continued. Alternatives, such as contracting for these services, have not been evaluated.
- ▶ Administrative costs of one TPL program have not been updated since program start up when they were determined to be \$100 per recipient. Since that time, no analysis has been completed to determine if current program administration is still cost-effective.
- ▶ Cost-effective alternatives for providing financial reviews currently provided by the Audit Unit have not be analyzed. In some cases, federal program financial controls tested by the Audit Unit could be contracted or additional reliance could be placed on other governmental audits completed as required by the Montana Single Audit Act (section 2-7-503, MCA). Cost savings could be achieved by reducing bureau resources and administrative costs in this area.
- ▶ The department created a separate Benchmarking Unit within the Audit and Compliance Bureau to assist in performing this performance measurement. Divisions are not required to and do not use unit services. Therefore, we could not determine the value of this unit. By reducing resources devoted to this unit, the department could incur cost savings of approximately \$82,000 annually and not impact other operations.

Bureau planning should examine functions to determine if they provide cost-effective benefits to bureau operations or if resources

Chapter III - Bureau Planning Needed

should be committed in other areas. Resources should be re-allocated to more cost-effective areas.

Recommendation #2

We recommend the bureau re-allocate resources to more cost-effective alternatives by either:

- A. Eliminating functions no longer cost-effective, or**
- B. Providing those functions through contracted services.**

Conclusion

The first steps in operational planning are outlined in this chapter. The next step in the process would be to develop the means to evaluate and control the progress outlined during this planning. The next chapter addresses improvements needed in controls over current bureau operations.

Chapter IV - Strengthen Bureau Process Controls

Introduction

The Audit and Compliance Bureau has not taken steps to formalize unit process or procedures. This has created noncompliance with existing statutes, processing delays, and inconsistencies in pursuing quality assurance cases. To address these concerns we examined process controls over the following bureau units:

- ▶ Surveillance and Utilization Review Subsystem (SURS) Unit.
- ▶ Third Party Liability (TPL) Unit.
- ▶ Program Compliance Unit.

The following sections highlight examples where specific controls are needed to ensure bureau units operate as intended.

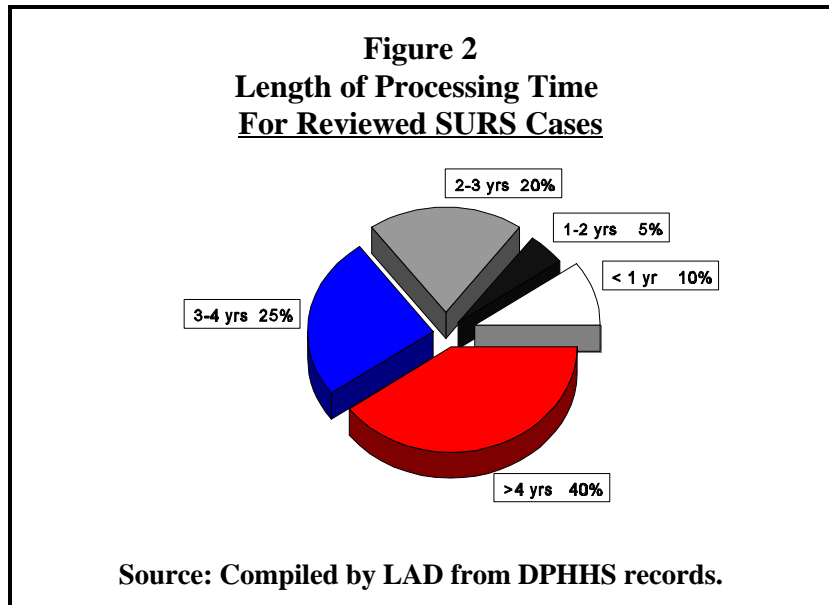
Recommendations address specific unit processes as well as some overall issues.

SURS Unit Processes

The SURS Unit is a key component in the quality assurance process for the Medicaid program. The intent of SURS is to detect, investigate, and address fraud in Medicaid. In the last two years, this unit had 250 to 300 cases under review at any one time. To test controls in this area, we reviewed a sample of twenty SURS files covering a variety of Medicaid providers. Files included referrals from other department staff, exceptions identified by SURS staff, and information from other providers. Based on this review, we believe the following controls are needed to ensure compliance.

Criteria Needed for Opening and Closing Cases

There are significant processing delays and workload backlogs in the SURS cases. In our sample of twenty open cases, the average processing time was over three years. Thirty percent of the current caseload have been open for over four years. The following chart illustrates the time lines of case reviews for our sample.



In evaluating reasons for these delays, we found major delays occur in deciding when a case should be opened or closed. Some staff noted they open a file as soon as they look at a case. Other staff conduct some background work to determine if a case should be opened. Although unit memorandums have been issued stating older cases should be opened first, staff did not appear to comply with this suggestion. Cases are not prioritized by staff based on length of time elapsed since opened. Staff address cases as they come across their desks or by area of interest.

Reasons for closing cases also varied among staff. Some staff leave cases open indefinitely just in case further problems are noted. Other staff close a case as soon as an overpayment is received or questioned areas are clarified. Without guidelines for opening and closing cases, there has been on-going case backlogs and workload tracking problems for staff. Formalizing case management criteria would provide staff guidance in making case decisions and provide guidelines for more timely case closure.

Chapter IV - Strengthen Bureau Process Controls

Recommendation #3

We recommend the bureau formalize SURS criteria for opening, prioritizing, and closing cases.

Formalize Case Settlement Criteria

Currently there are no guidelines for negotiating settlements with providers during the SURS review process. This created noncompliance with department statutes including:

- ▶ Overpayment amounts have not been pursued after the provider was no longer in business, declared bankruptcy, or moved out-of-state. File examples included overpayments ranging from \$6,600 to \$9,600. Section 53-6-111, MCA, charges the department with collecting overpayments from providers. This statute requires collection of all overpayment amounts regardless of whether it was due to errors on the part of the provider or the department. In addition, this statute does not excuse SURS from seeking repayment from a provider no longer in business or no longer operating a practice.
- ▶ The current SURS policy states no interest will be charged if repayment is completed within 90 days. This conflicts with statute that requires interest charges within 30 days of mailing the notice of overpayment. In eight files where documented overpayments were collected, no interest was calculated. In some of those cases, payment did not occur for over a year.
- ▶ ARM 46.12.407, requires notification of provider overpayment within 45 days of calculation. SURS does not have a process to track this area and files reviewed did not meet this requirement.

In addition to noncompliance, we also identified areas where SURS staff are not consistently handling cases. For example, one case for a \$12 overpayment was pursued while in another case a \$1,000 overpayment was written off. In other cases, a 25 percent discount

Chapter IV - Strengthen Bureau Process Controls

was given to a provider for contacting SURS prior to receiving overpayment notification and other settlements were set at fifty percent of the overpayment amount to encourage timely repayment. We were unable to identify statutory authority for negotiating these settlement amounts or for writing off overpayments. In addition, no cost-effectiveness analysis has been completed to establish reasonableness limits.

In the 20 files reviewed, we found SURS requested \$460,489 in overpayments and they collected \$389,596. Additional controls are needed to address these noncompliance areas which could result in additional money collected by the state.

Recommendation #4

We recommend the bureau formalize SURS criteria for calculating, negotiating, and pursuing case settlement payments.

Administrative Review Procedures Needed

Current SURS rules prescribe an appeal process that allows for an administrative review prior to conducting a fair hearing. This review is conducted by SURS and other department staff to help reduce the number of fair hearings. File documentation and staff interviews noted various procedures and forms used for this process. Lack of formal procedures has created time delays, staff confusion, and provider conflicts. Cases have backlogged in the SURS Unit while staff try to resolve operational inconsistencies. This backlog has resulted in the number of administrative reviews conducted decreasing by 50 percent in the past two years.

Although ARM 46.2.208 establishes a fifteen-day time frame for the administrative review process, this rule is not currently followed. To strengthen this area, formal procedures should be developed to ensure consistency in preparation, documentation, and review format.

Chapter IV - Strengthen Bureau Process Controls

Recommendation #5

We recommend the bureau formalize the SURS process for administrative review procedures.

TPL Unit Processes

The TPL Unit is responsible for reducing Medicaid program costs by identifying third parties (Medicare/insurance companies) that may be legally responsible for paying a recipient's medical expenses. Audit testing included reviewing staff activities, tracking a sample of cases through unit processes, and interviewing staff. Several improvements were identified to ensure processes operate more cost effectively.

Formal Cost-Effectiveness Methodology Needed

One aspect of the TPL process involved identifying cases where Medicaid funds can be used to pay insurance premiums for recipients. According to federal guidelines, a group health insurance plan is cost-effective when the amount paid for premiums, co-insurance, deductibles and administrative costs are likely to be less than the amount paid for similar Medicaid services. Montana's current cost-effectiveness determinations for these group plans do not always result in cost savings to the state. Current determinations result in the state not paying for some insurance premiums when it should and in other cases paying premiums that may not be cost-effective.

After reviewing case files, federal guidelines and staff interviews, we identified several steps that can strengthen Montana's cost-effectiveness methodology. Our review showed:

- ▶ Medical history information is not gathered for all recipients resulting in some applications being inappropriately denied.
- ▶ Average Medicaid costs used to calculate cost-effectiveness are not updated annually as required by federal regulations. The last update was in December 1995.

Chapter IV - Strengthen Bureau Process Controls

- ▶ Staff should not always use insurance deductible amounts when calculating cost-effectiveness because Medicaid does not always pay the deductible.

Currently, TPL Unit management has not established a formal methodology for calculating the cost-effectiveness of group health plans. This has resulted in cost-effectiveness determinations which are not based on current data and could be incorrect. Changes are needed to ensure Montana is making accurate cost-effective determinations.

Recommendation #6

We recommend the bureau strengthen the cost-effectiveness determination methodology used by the TPL Unit by:

- A. Requiring collection of medical history information.**
- B. Updating annual average Medicaid costs.**
- C. Using the proper components in calculations.**

Develop Policy and Procedure Manual

The TPL Unit has insufficient operational procedures. Through review of case files and discussions with TPL staff, we found this has contributed to inconsistencies and misinterpretations between staff when assessing and processing program applications. For instance:

- ▶ Some staff telephone employers, while other staff only send written communication. In other files, there was no documentation that staff verified coverage with the employer and/or the insurance company.
- ▶ Without procedures to calculate the average Medicaid costs, staff were not sure how to update annual tables used in cost-effectiveness decisions.
- ▶ Staff do not periodically review active case files “at least every 12 months” as required by federal regulations. Fifty

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percent of the files reviewed did not have documented reviews.

Overall, informal policies and out-of-date procedures are causing inaccurate and inconsistent decisions by TPL staff. Formally defining unit requirements would provide additional guidelines for staff to use in performing these duties.

Recommendation #7

We recommend the bureau develop a TPL staff policy and procedure manual for key components of their processes.

Program Compliance Unit Processes

The Program Compliance Unit is responsible for monitoring recipient eligibility determinations made by county staff in the Food Stamp and Medicaid programs. This unit reviews a sample of cases monthly for compliance with eligibility rules. Errors identified are sent to the county staff for resolution. This process has unnecessary steps and inconsistencies in addressing program requirements. The following sections outline suggested areas for improving operations.

Track Compliance of Dropped Cases

Program Compliance Unit staff have not developed controls to ensure termination of a recipient's benefits due to lack of cooperation as required in statute. Program Compliance reviewers schedule visits with recipients to confirm eligibility information. If a recipient refuses to meet with the reviewer, it may be an indication the recipient misrepresented his/her situation and may not be eligible for benefits. When recipients refuse to cooperate, Program Compliance reviewers send notification to county offices to "drop" or terminate recipient benefits. According to Program Compliance Unit staff, they assume county staff complete the "drops" and take the appropriate action.

We reviewed 35 percent of Medicaid cases and twenty percent of Food Stamp cases dropped in fiscal year 1998-99 to determine if the recipients' benefits were terminated after Program Compliance reviewers dropped them for lack of cooperation. Thirty-three percent of the Food Stamp recipients and twenty percent of Medicaid

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recipients continued to receive benefits even though recipients were listed as dropped for lack of cooperation by Program Compliance reviewers. In some cases, benefits have continued for several months without action from either the county or Program Compliance staff. Although benefits can be reinstated, bureau staff were unable to explain or document why corrective action had not occurred. This is not in compliance with program regulations and is resulting in additional program costs. The department should take steps to ensure compliance.

Recommendation #8

We recommend the bureau establish a system for tracking compliance of dropped cases in the Program Compliance Unit.

Formalize Medicaid Eligibility Pilot Project

Since April 1999, the Program Compliance Unit has been working on a specific Medicaid Eligibility Pilot Project which consists of reviewing eligibility determinations for two targeted elements within Montana's long-term care population: nursing home patients and home/community-based clients. Limited planning has occurred in this area to direct Program Compliance Unit staff. As a result, reviews were not consistently completed within the suggested time frames. In addition, cases were submitted without all the required data completed. Without reviewing all information relating to a given case, the reviewer cannot accurately determine the correctness of the eligibility determination. Staff interviews noted confusion on procedures and review requirements in this area. Written policies and procedures would help strengthen program controls and ensure continuity if staffing changes occur.

Recommendation #9

We recommend the bureau formalize procedures for the Medicaid Eligibility Pilot Project in the Program Compliance Unit.

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Expand Use of Electronic Information Systems

Audit and Compliance Bureau operations are not fully using electronic information systems in performing their duties. Two concerns were noted:

- ▶ Current systems are not relied upon.
- ▶ Systems used by other organizations are not employed.

This has resulted in inefficient use of resources and ineffective processes. For example, the SURS and the TPL Unit are not fully utilizing electronic systems at their disposal and do not take steps to ensure current systems are meeting their data research and processing needs. Information on Medicaid Management Information System (MMIS) and Medstat, as well as, new SURS software has not been used. Other units such as, the Audit Unit, do not rely upon electronic systems such as Medstat to gather data or research provider trends. In other cases, systems are used just because its required, not because system data is useful.

Various Audit and Compliance Bureau duties have also been contracted out to private companies to meet designated time-lines. These private companies use electronic data systems to conduct similar case management activities. In addition, other state agencies (Department of Justice, LAD) involved in Medicaid reviews are using electronic information systems for their case reviews. Both groups indicated new software products are available for conducting data analysis for quality assurance purposes which are more user-friendly and useful than some of the current systems available to bureau staff. Interviews with supervisory staff indicated they were aware there were options for electronic systems but they had not taken steps to research that area.

Contract costs for the MMIS in fiscal year 1997-98 were approximately \$3.4 million and are projected to increase over the next biennium. Although these are department-wide expenses, bureau units do rely upon various aspects of this system and pay for a portion of these services. Steps should be taken to identify and utilize effective electronic management information systems.

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Recommendation #10

We recommend the bureau more effectively utilize existing and new electronic management information systems.

Additional Controls Needed Over Contracted Services

Several bureau units use services provided through private contracts to supplement their operations. For example, a company under contract with the TPL Unit collected approximately \$1.3 million in calendar year 1998. Some SURS Unit duties were contracted out to address workload backlogs. SURS also contracts with various medical professionals to perform prior-authorization duties and to provide records/coding expertise. Although these contracts are responsible for critical bureau activities, minimal steps have been taken to manage these contracts.

Inconsistencies were noted in the procedures followed and type of documentation required for developing and monitoring contracts. Written contracts were available in some areas and not in others. In some cases, supervisory approval is not formally documented to clearly note management approval and funding availability. In addition, there was confusion on contract monitoring responsibilities for the MMIS contract. Although there is a designated contract liaison, we received conflicting comments on who is responsible for ensuring contract performance. Bureau staff rely upon the contract liaison, however, the liaison noted each unit should perform their own monitoring. Therefore, monitoring of contracted bureau duties is not performed and contract obligations are not being met in critical areas. For example, responsibilities relating to updating SURS electronic monitoring systems, running required reports, or evaluating the cost-effectiveness of contracted duties has not been completed.

Currently, the department spends over \$500,000 annually for contracted bureau services. And as noted above, costs associated with the MMIS are over \$3 million annually. Due to the critical nature of these services and the dollar amounts involved, we believe contract controls such as monitoring duties should be clarified and

Chapter IV - Strengthen Bureau Process Controls

assigned to specific staff within the department to ensure contract obligations are met.

Recommendation #11

We recommend the bureau develop formal controls for contracted services by:

- A. Establishing guidelines for entering into new contracts.**
- B. Assigning contract monitoring responsibilities.**

Conclusion

In addition to limited process controls, we found additional steps are needed to assure the existing bureau functions are meeting their intended purpose. The recommendations and suggestions in this chapter provide the first steps in achieving those goals. A strong management control system also requires on-going maintenance/re-assessment of staffing and directing these functions. The final chapter discusses suggestions for addressing these areas.

Chapter V - Bureau Staffing and Directing

Introduction

It is the task of management to design and maintain an environment in which program resources are properly staffed and directed to achieve overall goals. That environment has not been put in place for Audit and Compliance Bureau functions. This chapter outlines specific steps that could be taken to strengthen staffing controls in the bureau.

Assure Staffing Controls are in Place

A good system of staffing controls includes job descriptions which reflect actual duties performed, on-going supervision of staff activities, staff training, and periodic formal evaluations of employees. Although the department has policies addressing the duties and responsibilities of supervisory and management staff and has provided training on these duties, bureau management staff are not meeting these guidelines. For example, some staff have not received any performance appraisals for over five years. In addition, we noted several instances where different staff are performing the same duties but job descriptions and pay grades are at different levels.

Based on our audit work, it does not appear steps have been taken to implement a systematic approach to supervising bureau staff. In addition, the controls outlined in Chapter Four will not be effective if there is no development of staffing controls. To ensure controls are followed, bureau management should ensure supervisory staff are aware of their responsibilities and take steps to assure compliance with department management policies.

Recommendation #12

We recommend bureau management take steps to:

- A. Ensure supervisory staff are aware of their responsibilities.**
- B. Assure compliance with department management policies.**

Chapter V - Bureau Staffing and Directing

Role Re-Assignment May be Needed

Role re-assignment is the design or re-design of staff roles that have been affected by process changes. This analysis is completed to ensure the responsibility and accountability of new roles accurately reflect the way work should be done when change is implemented. In this report suggestions have been made on re-evaluating the bureau's mission and re-allocating bureau resources. Taking these steps and incorporating these type of changes will significantly change staff roles within the new operation. Organizational changes may impact staff duties and responsibilities into new areas or unfamiliar responsibilities. When this occurs, the skills and capabilities of current staff may no longer meet the needs of the bureau.

Management will need to assess the capabilities of current staff to determine if they meet the proposed changes to bureau functions. A role re-assignment strategy document can be developed to outline the scope, training, and steps that should be taken to complete the role re-assignment process. Gaps in how work was previously done and how it will be done in the new system can help identify current staff roles and the need for new/changed roles.

Responsibility to execute role re-assignment resides primarily with the management team. Section 2-15-112, MCA, gives department directors authority to make these position changes or transfer employees as needed to promote efficient and effective operations.

Recommendation #13

We recommend the department develop a role re-assignment strategy to assess staff skills, position changes, and training needs for proposed bureau changes.

Conclusion

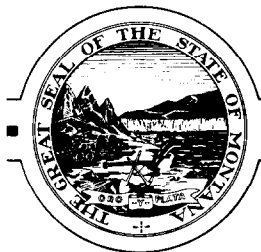
The current Audit and Compliance Bureau was created during agency re-organization in 1995. This bureau was created by combining functions from various other department bureaus and programs. Additional fine-tuning and re-defining will be an on-going process as the department solidifies its organizational structure

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and assesses its quality assurance needs. We believe the recommendations outlined in this report are additional steps needed to strengthen the re-organizational process.

Agency Response

DEPARTMENT OF
PUBLIC HEALTH AND HUMAN SERVICES



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RE: Response to Performance Audit, November 1999, of the Quality Assurance Division, Audit and Compliance Bureau.

In response to the Performance Audit dated November 1999, we have compiled a response to each finding of potential changes and recommendations for the Audit and Compliance Bureau.

Recommendation #1

We recommend the department "re-visit" the role and purpose of the Audit and Compliance Bureau to formally assess the functions needed and establish methods for coordinating with other divisions.

Department Response:

We partially agree with recommendation #1. The department believes that the Quality Assurance Division has addressed the role and purpose of the Audit and Compliance Bureau, but we will "re-visit" these areas to assess the current functions and review methods for strengthening coordination with other divisions.

Recommendation #2

We recommend the bureau reallocate resources to more cost-effective alternatives by either:

- A. Eliminating functions no longer cost-effective, or
- B. Providing those functions through contracted services

Department Response:

We partially agree with recommendation #2. The department is responsible for the allocation of FTE and contract dollars as required to implement the provisions of HB2. The Quality Assurance

Division is constantly evaluating its resources, both FTE and contract dollars. Some of the major areas that are reviewed are: eliminating program functions that no longer are required or are no longer cost-effective and evaluation of potential functions that could be provided more effectively and efficiently through contracted services.

Recommendation #3

We recommend the bureau formalize SURS criteria for opening, prioritizing, and closing cases.

Department Response:

We concur with recommendation #3. The Quality Assurance Division, SURS Unit, will expand and refine current policy on when to open and close cases and the methodology for prioritizing cases.

Recommendation #4

We recommend the bureau formalize SURS criteria for calculating, negotiating, and pursuing case settlement payments.

Department Response:

We concur with recommendation # 4. The Quality Assurance Division, SURS Unit will expand and refine current policy, and a process and policy for negotiating settlements will be initiated. Both Federal and State statutes will be reviewed for consistency in applying interest rates and collections.

Recommendation #5

We recommend the bureau formalize the SURS process for administrative review procedures.

Department Response:

We concur with the recommendation #5. The Quality Assurance Division, SURS Unit, will develop formal procedures for administrative reviews and to establish a system for monitoring compliance with the designated procedures.

Recommendation #6

We recommend the bureau strengthen the cost-effectiveness determination methodology used by the TPL Unit by:

- A. Requiring medical history information.
- B. Updating average annual Medicaid costs.

- C. Using the proper components in calculations.

Department Response:

- A. We agree it is beneficial to gather and use recipient medical history in many cases, but would point out that it is not always possible nor practical.
- B. We agree the average annual Medicaid costs need to be updated regularly and we are currently developing updated charts.
- C. We believe we have always used the proper components in HIPP calculations, but acknowledge that some adjustments are needed to make the calculations more accurate.

Recommendation #7

We recommend the bureau develop a TPL staff policy and procedure manual for key components of their processes.

Department Response:

We partially concur with recommendation #7. While we have always had policy and procedures manuals, we do agree with a previous recommendation that the policy and procedure manuals need to be updated. Policy and procedure will be reviewed and updated as appropriate.

Recommendation #8

We recommend the bureau establish a system for tracking compliance of dropped cases in the Program Compliance Unit.

Department Response:

We agree with recommendation #8. The Program Compliance unit will coordinate with HCSD to track compliance actions on recipient benefits for dropped cases.

Recommendation #9

We recommend the bureau formalize procedures for the Medicaid Eligibility Pilot Project in the Program Compliance Unit.

Department Response:

We do not disagree with recommendation #9 but wish to clarify that at the time of the audit the Medicaid Eligibility Pilot Project was operational and written operation criteria were in place.

Recommendation #10

We recommend the department more effectively utilize existing and new electronic management information systems.

Department Response:

We agree with recommendation #10. The Department is evaluating production software and other custom designed systems designed to strengthen detection of Medicaid overpayments. Other systems that enhance the review of claims data information are also being reviewed and evaluated. Some electronic management of data is in place but needs to be refined and expanded.

Recommendation # 11

We recommend the bureau develop formal controls for contracted services for quality assurance functions including:

- A. Developing guidelines for entering into new contracts.
- B. Assigning contract monitoring responsibilities.

Department Response:

We agree with the content of #11 but the department has in place and is utilizing item A and B.

- A. The Department has had a standardized contracting policy and recently updated that policy.
- B. TPL contract monitoring duties have always been clearly assigned to the TPL Manager both within the contract language and in the manager's position description. We believe those contracts have been monitored.

Recommendation #12

We recommend bureau management take steps to:

- A. Ensure supervisory staff are aware of their responsibilities.
- B. Assure compliance with department management policies.

Department Response:

We agree with recommendation #12. The following items will be implemented to comply with recommendation 12.

Department personnel staff will conduct a formal review of this Bureau to:

- A. Ensure supervisory staff are aware of their responsibilities.
- B. Determine compliance with department management policies.

Recommendation #13

We recommend the Department develop a role re-assignment strategy to assess staff skills, position changes, and training needs for proposed bureau changes.

Department Response:

We agree with recommendation #13. The department will develop a re-assignment strategy to assess staff skills, and training needs for re-assigned staff. Division management will work with Personnel/Human Resources in the development of such a strategy.

In closing, we wish to thank the Legislative Audit Division for its constructive recommendations regarding the Audit and Program Compliance Bureau. The Department strives to continually improve and strengthen its operations. We have identified areas where we believe improvement can be implemented and have already taken steps to address the issues specified in the November 1999 Performance Audit.

Sincerely,



Laurie Ekanger
Director

LE:EM:rm

cc: Denzel Davis, Administrator
Erich Merdinger, Bureau Chief