Audit Report

Maryland Department of Health
Medical Care Programs Administration
Managed Care Program

December 2023

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

December 14, 2023

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

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – Medical Care Programs Administration's (MCPA) fiscal activities with respect to the Managed Care Program (known as HealthChoice) for the period beginning April 1, 2019 to March 31, 2022. Under HealthChoice, MCPA makes monthly capitation payments to private Managed Care Organizations (MCOs) to cover the cost of services provided to Medicaid recipients. During calendar year 2022, MCPA paid providers approximately $8.2 billion for HealthChoice services, which was financed by State and federal funds.

Our audit disclosed that MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation. The inclusion of such payments in the expenditure data used to calculate the capitation rates could result in MCO capitation rates being set too high. Claims which should be excluded from the capitation rate calculation include denied claims and claims which were not the responsibility of the MCO, such as claims for services carved out of the MCO contracts or for incarcerated individuals. For example, our analysis of expenditure data in MCPA's Medicaid Management Information System (MMIS II) disclosed 72,000 claims, totaling $110.2 million, that were denied because they were duplicates of a previously submitted claim. However, MCPA did not ensure that these duplicate expenditures were excluded from the capitation rate calculation.

In addition, MCPA's match process to identify incarcerated individuals for disenrollment from HealthChoice services was not comprehensive, as it did not identify all incarcerated individuals. Incarcerated individuals generally receive health care from the Department of Public Safety and Correctional Services), and should be removed from HealthChoice upon incarceration. Specifically, our Data

Analytics Unit independently obtained incarceration records from DPSCS for the 4-year period though fiscal year 2022 and, when matched to MCO HealthChoice enrollees, identified 3,539 incarcerated individuals who were enrolled in HealthChoice, resulting in $14 million in improper capitation payments.

Finally, MCPA did not investigate or recover potentially improper supplemental payments to MCOs for newborn deliveries. In February 2022, MCPA reviewed supplemental newborn delivery claims paid during calendar years 2018 through 2020 and identified 625 claims totaling $10.4 million for which MCPA could not identify a corresponding hospital record. Our review disclosed that, as of July 2022 MCPA had not investigated these claims to determine if the individual payments were legitimate or should be recovered from the MCOs.

Based on our current audit assessment of significance and risk to our audit objectives, our audit also included a review to determine the status of four of the five findings contained in our preceding audit report. We determined that MCPA satisfactorily addressed these findings. In addition, our audit included a review to determine the status of three of the nine findings contained in our June 2020 performance audit report on MDH's efforts to identify and analyze improper Medicaid payments. We determined that MDH satisfactorily addressed one of these three findings. The other two performance audit findings we reviewed are repeated in this report.

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

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

Respectfully submitted,

Gregory A. Hook

Gregory A. Hook, CPA
Legislative Auditor

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

Background Information

Agency Responsibilities and Audit Scope

The Medical Care Programs Administration (MCPA) of the Maryland Department of Health (MDH) operates under both Title XIX of the federal Social Security Act (Medicaid) and State law. Medicaid is a joint federal and state entitlement program for low-income individuals. Each state administers Medicaid, subject to certain state-specific coverage elections, which are then required to provide healthcare coverage to all applicants who meet the state program's eligibility criteria. During fiscal year 2022, MCPA's Medicaid program expenditures totaled approximately $14.1 billion, including $9.3 billion in federal fund expenditures (see Figure 1).

Figure 1
MCPA Positions, Expenditures, and Funding Sources

Full-Time Equivalent Positions as of June 30, 2022		
	Positions	**Percent**
Filled	531	85.9%
Vacant	87	14.1%
Total	**618**	

Fiscal Year 2022 Expenditures		
	Expenditures	**Percent**
Salaries, Wages, and Fringe Benefits	$ 55,824,164	0.4%
Technical and Special Fees	5,339,864	0.0%
Operating Expenses	14,086,320,037	99.6%
Total	**$14,147,484,065**	

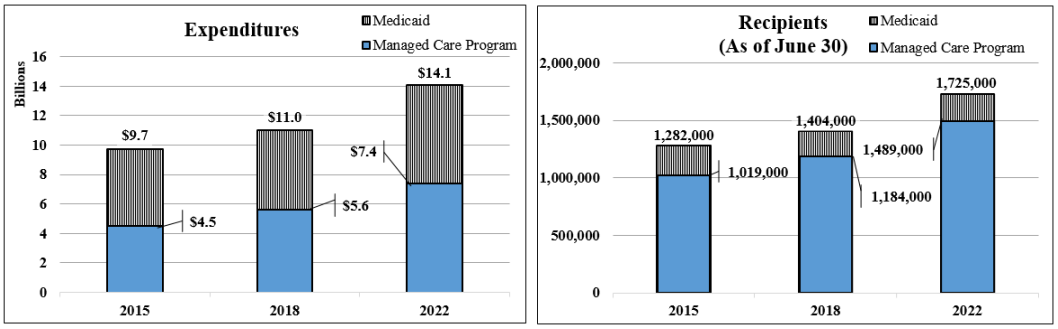
Fiscal Year 2022 Funding Sources		
	Funding	**Percent**
General Fund	$ 4,003,763,613	28.3%
Special Fund	718,980,211	5.1%
Federal Fund	9,337,698,527	66.0%
Reimbursable Fund	87,041,714	0.6%
Total	**$14,147,484,065**	

Source: State financial and personnel records

As noted in Figure 2 below, $7.4 billion of the aforementioned expenditures related to MCPA's Managed Care Program, known as HealthChoice. Under HealthChoice, nine private Managed Care Organizations (MCOs) provide medical services to Maryland Medicaid recipients. In general, MCOs contract with and pay health care professionals and other entities (such as hospitals) to provide these services.

According to MCPA records, as of June 30, 2022, approximately 1.5 million of the 1.7 million Maryland Medicaid recipients[1] were enrolled in MCOs (see Figure 2). MCPA makes a monthly capitation payment for each Medicaid recipient enrolled in the MCO. The capitation rates vary by recipient based on several factors, including the recipient's demographics and medical history. MCPA also reimburses the MCOs for certain high-cost activities (such as newborn deliveries).

Figure 2
MCPA Expenditures and Medicaid Recipients Count
(Fiscal Years 2015 to 2022)



Source: State accounting records, MCPA records

The scope of this audit included MCPA's monitoring of the following services: enrollment and disenrollment of recipients in MCOs, calculations of the MCO capitation rates, and MCO oversight and processing of the related payments. Separate audits are conducted of MCPA's primary functions (such as recipient eligibility, long-term care, and hospital services), of MCPA's monitoring of the Behavioral Health Administration's Administrative Service Organization, of MCPA's Pharmacy Services, and the recovery of the federal share of Medicaid program costs, which is included in our audit of MDH Office of the Secretary and Other Units (See Exhibit 1 on page 19).

[1] The increase in the number of Medicaid recipients and the related expenditures is primarily due to Medicaid eligibility redeterminations being suspended during the COVID-19 public health emergency.

Ransomware Security Incident

In December 2021, MDH experienced a broad security incident resulting from a ransomware attack[2]. This incident affected the entire MDH computer network and disrupted Information Technology (IT) operations for all MDH servers and end user computers, resulting in substantial impact on all MDH business operations including MCPA. MDH notified the Department of Information Technology's (DoIT) Office of Security Management, which initiated incident response measures. Various other parties were informed of this incident or engaged for recovery efforts. DoIT concluded that no evidence existed indicating that sensitive or regulated information had been improperly acquired.

The incident, response measures, and related controls were subject to review as part of our recent audit of the MDH Office of the Secretary and Other Units. This incident did not significantly impact our audit, and we were able to obtain information needed to satisfy our audit objectives and related conclusions.

Status of Findings from Preceding Audit Reports

Based on our current assessment of significance and risk relative to our audit objectives, our audit included a review to determine the status of four of the five findings contained in our preceding audit report dated April 22, 2020. As disclosed in Figure 3 on the following page, we determined that MCPA satisfactorily addressed these four findings.

Our audit also included a review to determine the status of three of the nine findings that were contained in our June 23, 2020 performance audit report of MDH's Efforts to Identify and Analyze Improper Medicaid Payments. We determined that MCPA satisfactorily addressed one of these three findings. The remaining two findings are repeated in this report.

[2] As defined by the federal Department of Homeland Security's Cybersecurity and Infrastructure Security Agency, ransomware is an ever-evolving form of malware designed to encrypt files on a device, rendering any files and the systems that rely on them unusable. Malicious actors then demand ransom in exchange for decryption.

Figure 3
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
MCPA – Managed Care Program		
Finding 1	MCPA did not take follow-up action when its independent accounting firm was unable to validate certain Managed Care Organization (MCO) reported expenditures that were used to calculate capitation rates.	Not repeated
Finding 2	MCPA did not verify that MCO expenditure data used in the capitation rate calculations were accurate or ensure the rates calculated by the State university were mathematically accurate.	Not repeated
Finding 3	MCPA did not ensure its independent accounting firm verified that MCOs were maximizing their third-party cost recovery and cost avoidance efforts, as required.	Not repeated
Finding 4	MCPA had not established procedures to verify the propriety of supplemental payments to the MCOs for newborn deliveries and hepatitis C treatments.	Not repeated
Finding 5	MCPA did not consistently verify the propriety of certain labor and overhead charges invoiced by a State university prior to making payments.	Not repeated (Not followed up on)
MDH – Efforts to Identify and Analyze Improper Medicaid Payments		
Finding 4	MDH accepted encounter data from MCOs that excluded necessary data elements and hindered its ability to perform effective oversight, including the Division of Program Integrity's use of data analytics to identify and analyze improper claim activity.	Not repeated
Finding 5	MDH did not perform a data match or have an alternative method to determine if MCOs were paying claims related to certain services that MDH had carved out from the MCO contracts.	**Repeated** (Current Finding 2)
Finding 8	A data match performed by MDH to identify incarcerated individuals who were improperly enrolled in MCOs was based on incomplete data and was not used to identify and prevent improper fee-for-service payments related to incarcerated individuals. Our expanded data match identified approximately $9.6 million of potential improper claim payments that had not been identified or investigated by MDH.	**Repeated** (Current Finding 3)

Findings and Recommendations

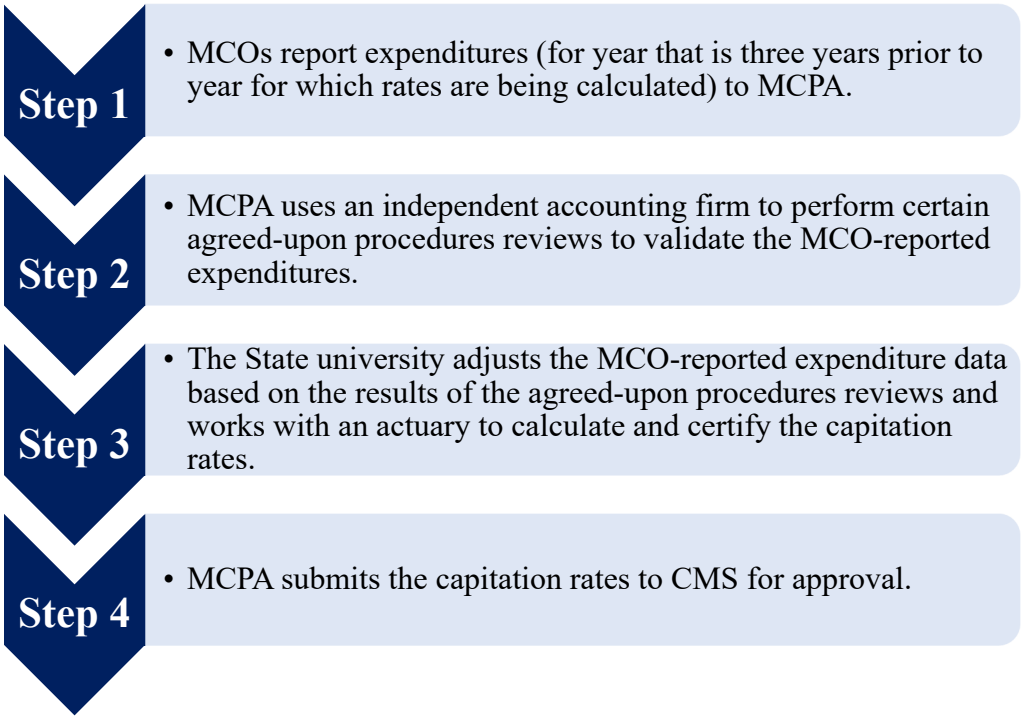
Capitation Rate Calculations

Background

According to Medicaid Manangement Information System (MMIS II) records, the Medical Care Programs Administration (MCPA) made payments to the Managed Care Organizations (MCOs) totaling approximately $8.2 billion during calendar year 2022, which were financed by State and federal funds. Capitation payments accounted for approximately 95 percent ($7.8 billion) of this amount, and the remaining $392.9 million was for supplemental payments made to MCOs for certain high cost services (such as newborn deliveries).

The capitation rates are calculated on a calendar year basis, using the MCOs' reported expenditures for the year that is three years prior to the year for which rates are being calculated, and vary by recipient depending on the assigned capitation rate category. Our review focused primarily on MCPA's calculation of the calendar year 2022 capitation rates, which was performed using MCO expenditures during calendar year 2019. MCPA contracts with an independent accounting firm to verify the MCO-reported expenditures and has an interagency agreement with a State university to assist with the rate setting calculation (see Figure 4 on the following page). These calculations are certified by an actuary and then submitted to the federal Centers for Medicare and Medicaid Services (CMS) for approval.

Figure 4
Capitation Rate Calculation Overview



Each recipient is placed in one of 62 capitation categories based on factors such as age, demographics, and historical medical services provided. For example, for calendar year 2022, the monthly capitation rates paid for adults without children in Baltimore City ranged from $247 to $3,338 per recipient.

Finding 1
MCPA procedures were not sufficiently comprehensive to ensure the validty of MCO-reported expenditure data used in the capitation rate calculation.

Analysis
MCPA procedures were not sufficiently comprehensive to ensure the validity of MCO-reported expenditure data used in the capitation rate calculation. The inclusion of improper or inaccurate payments in the MCO-reported expenditures could result in increased capitation rates given that the expenditures are the most significant component of the rate calculation. As noted in Figure 4, the MCOs submitted a summary of their expenditures to MCPA to be used in the annual capitation rate-setting process. MCPA primarily relied on reviews conducted by an independent accounting firm to validate these expenditures. However, the only review of the underlying claims data was a non-statistical sample of 25 claims for

each of the 9 MCOs (for a total of 225 test items). In addition, MCPA did not expand testing when the firm identified deficiencies with the items tested. Rather, MCPA simply forwarded the firm's limited test results to the State university for its consideration in the capitation rate calculations.

Our review of five of the firm's reports for MCOs, which had received capitation payments totaling $6.1 billion of the $7.8 billion during calendar year 2022, disclosed that all five identified instances in which the amounts paid were improper or were not accurately reported to MCPA. For example, the report for one MCO identified deficiencies with 10 of the 25 claims tested. Since the 9 MCOs collectively reported more than 9.5 million claims in calendar year 2019, we believe a more comprehensive method should be used to test these transactions, instead of a non-statistical test of 225 claims. For example, MCPA could require the accounting firm to use statistical sampling for each of the MCOs reviewed that might potentially enable a projection of results to the entire population of claims or certain capitation categories.

Recommendation 1

We recommend that MCPA develop comprehensive procedures to validate the expenditure data used to calculate MCO capitation rates. Specifically, we recommend that MCPA

a. develop a more comprehensive methodology to verify the propriety of claims, such as consider whether statistical sampling could be used during the review of MCO claims to provide results that can be projected to the population of claims or certain capitation categories; and

b. take appropriate action, including expanding its review, when reviews of MCO claims identify discrepancies.

Finding 2

MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation.

Analysis

MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation. Claims which should be excluded from the capitation rate calculation include denied claims and claims which were not the responsibility of the MCO, such as, claims for carved out services[3] or for incarcerated individuals. The inclusion of such

[3] MCPA, rather than the MCO, is responsible for paying claims for carved-out services, such as certain behavioral health services.

payments in the expenditure data used to calculate the capitation rates could result in MCO capitation rates being set too high.

Denied Claims Were Not Investigated

MCPA did not ensure that the MCO-reported expenditure data, used in the rate-setting calculation, excluded claims that were subsequently determined to be improper. The MCOs record expenditure data in MCPA's Medicaid Management Information System (MMIS II), which contains numerous automated edits to identify potential improprieties (such as duplicate claims) for further investigation by MCPA. MCPA did not review these denied claims to verify if they were improper and determine if the related ineligible costs were excluded from the expenditure data submitted by the MCOs for capitation rate-setting purposes. Rather, the denied claims were forwarded by MCPA to the MCOs for further investigation without additional follow up by MCPA to determine the resolution.

Figure 5
Denied MCO Claims in MMIS II by Calendar Year

Calendar Year	Claims Denied by MMIS II	Amount Reported Paid by MCO
2019	13,039	$ 18,336,000
2020	91,247	44,989,000
2021	643,491	205,788,000
Total	**747,777**	**$269,113,000**

Source: MCPA records

Our analysis of MMIS II records disclosed approximately 748,000 claims totaling $269.1 million reported by the MCOs between calendar year 2019 and 2021 that were denied by MMIS II (see Figure 5). A significant portion of these claims appeared questionable based on the stated reason the claim was denied by MMIS II. For example, 72,000 claims totaling $110.2 million were denied because they were duplicates of previously submitted claims; these were primarily related to calendar year 2021 denied claims, which represented approximately 82 percent or $90.6 million of these duplicated claims.[4]

Improper Payments for Carved Out Services

MCPA did not have procedures to ensure that potentially duplicated claims for carved out services were excluded from the capitation rate calculation, resulting in the failure to identify potentially duplicate claims totaling $6.7 million. MCPA's contracts with the nine MCOs excludes carved out services (such as certain behavioral health services), which are covered directly by MCPA as fee-for-service claims.

[4] MCPA started to obtain encounter data from MCOs in fiscal year 2019 and could not readily explain the reasons for the variances from year to year since then.

Our match[5] of fee-for-service claims for carved out services, paid directly by MCPA to other health care providers, to the claims data reported by the MCOs during the period between January 2019 and April 2022 identified 63,000 potentially duplicate claims (paid by both the MCO and MCPA to a provider for the same service)[6], including 57,000 claims for behavioral health services. We requested MCPA to investigate 25 of these claims for behavioral health services totaling $114,000. MCPA determined that all 25 claims were duplicates, of which 14 claims totaling $20,000 were improperly paid by the MCOs and the other 11 claims were improperly paid by the Administrative Service Organization for Behavioral Health Services.[7]

A similar condition was commented upon in our June 23, 2020 performance audit report on MDH's Efforts to Identify and Analyze Improper Medicaid Payments. MDH's response to that report indicated that it would implement a data match to ensure the MCOs were not paying for carved out services by June 2021. However, during our current audit MDH management advised us that the match had not been implemented due to MDH's focus on the COVID-19 pandemic.

Claims Paid for Incarcerated Individuals

MCPA did not ensure that MCO-reported expenditures excluded claims for incarcerated individuals. These individuals are not eligible for HealthChoice while they are incarcerated; instead, their healthcare costs are generally covered by the Department of Public Safety and Correctional Services (DPSCS). Our comparison of the MCO-reported expenditure data for January 2019 through April 2022 to DPSCS incarceration records[8] identified $1.9 million in claims paid by the MCOs for 309 individuals while they were incarcerated. See Finding 3 which is an additional finding related to incarcerated individuals.

Recommendation 2

We recommend that MCPA

a. review claims denied by MMIS II and ensure improper payments are excluded from the expenditure data used in the capitation rate calculation;

b. use available MCO data to ensure duplicate payments are not made for services that are carved out from the MCO contracts (repeat);

[5] Our match was based on a fee-for-service claim having the same date of service, recipient, diagnosis, provider, and claim charge as the claim data reported by the MCO.

[6] The MCO would have been compensated for the direct provider payment through the capitation payments made by MCPA.

[7] These payments are within the scope of our separate audit of MCPA's Administrative Service Organization for Behavioral Health Services.

[8] We obtained incarceration records from DPSCS for use during our audit as described further in Finding 3.

c. ensure claims paid for incarcerated individuals are excluded from the expenditure data used in the capitation rate calculation; and

d. take corrective action to address carved out service claims that were improperly paid, including the claims mentioned above (repeat).

Improper Medicaid Payments

Finding 3
MCPA did not have an effective process to identify capitation payments to MCOs for incarcerated individuals, resulting in approximately $14 million in improper payments during fiscal years 2019 to 2022.

Analysis

MCPA did not have an effective process to ensure incarcerated individuals were disenrolled from the HealthChoice program resulting in approximately $14 million in improper capitation payments made between July 2018 and April 2022. Individuals who are incarcerated are removed from HealthChoice because the cost of their healthcare is generally paid by the Department of Public Safety and Correctional Services (DPSCS)[9]. MCPA performed a weekly match of MCO enrollment data to incarceration data obtained from DPSCS to identify individuals for removal.

Our review disclosed that MCPA's match did not identify all incarcerated individuals. Specifically, our Data Analytics Unit independently obtained incarceration records (including the periods of incarceration based on dates of inmate intake, transfer, and release) from DPSCS for the 4-year period of fiscal year 2019 to 2022.[10] We then matched this data to MCO HealthChoice enrollees and identified 3,539 incarcerated individuals who were enrolled in HealthChoice, resulting in $14 million in improper capitation payments.

A similar condition was commented upon in our June 23, 2020 performance audit report of MDH's Efforts to Identify and Analyze Improper Medicaid Payments. That report noted that MDH failed to identify $7.9 million in potential improper

[9] These individuals' healthcare costs are generally paid by DPSCS. Under federal and State regulations, incarcerated individuals are allowed to maintain Medicaid eligibility during periods of incarceration, but are required to be disenrolled from the Managed Care Program (HealthChoice). Typically, Medicaid only covers certain fee-for-service claims (such as inpatient hospital care) for incarcerated individuals and payments for ineligible services should be prevented.

[10] We determined that the incarceration records we received from DPSCS was sufficiently reliable for the purposes of our matches.

payments made from fiscal years 2016 to 2018 for individuals who were incarcerated at the time of service. MDH was aware that it was not obtaining certain data, such as data pertaining to the incarceration period, but advised us that attempts to resolve the issues with DPSCS were unsuccessful. In response to that report, MDH indicated that it would continue to work with DPSCS to obtain complete and accurate data. However, during our current audit MDH could not document that it made additional attempts to address the matter with DPSCS.

Recommendation 3
We recommend that MCPA

a. work with DPSCS to obtain complete and accurate incarceration data for its match (repeat) and engage the assistance of the Department of Budget and Management Audit Compliance Unit as necessary to resolve the matter,
b. ensure incarcerated individuals are timely disenrolled from MCOs to prevent improper capitation payments (repeat), and
c. investigate the potential improper payments we identified and take corrective action (such as recovery of improper payments) (repeat).

MCO Supplemental Payments

Finding 4
MCPA did not investigate and recover potentially improper supplemental payments to MCOs for newborn deliveries totaling $10.4 million.

Analysis
MCPA did not investigate and recover potentially improper supplemental payments to MCOs for newborn deliveries. Supplemental newborn delivery claims are submitted by the MCOs directly into MMIS II and are not verified by MCPA prior to payment. According MCPA records, during calendar years 2019 through 2021, MCOs were paid for 80,000 supplemental claims totaling approximately $1.28 billion, of which 83 percent ($1.06 billion) were for newborn delivery claims. During calendar year 2021, supplemental payments for each newborn delivery ranged from $12,504 to $17,279, depending on the geographic location.

In February 2022, MCPA implemented a process to verify supplemental newborn delivery claims and reviewed claims paid during calendar years 2018 through 2020. This review identified 625 claims totaling $10.4 million for which MCPA could not identify a corresponding hospital record. Our review disclosed that, as of July 2022, MCPA had not investigated these individual claims to determine if

the payments were legitimate or should be recovered from the MCOs. MCPA management cited staff shortages, the impact from the COVID-19 pandemic, and the December 2021 ransomware security incident as reasons why the claims had not been investigated.

At our request, MCPA investigated 20 of the aforementioned claims totaling $305,000. MCPA determined that the MCOs could not provide adequate supporting documentation for the newborn delivery related to 9 claims totaling $137,000 and advised that it planned to recover these funds from the MCOs.

Recommendation 4
We recommend that MCPA

a. investigate the propriety of all potentially improper newborn delivery supplemental claims; and

b. recover any amounts paid for improper claims, including those noted above.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – Medical Care Programs Administration (MCPA) for the period beginning April 1, 2019 and ending March 31, 2022. The audit scope for this audit included MCPA's fiscal activities with respect to the Managed Care Program (HealthChoice) and excluded the procedures and controls over MCPA's primary functions, the Behavioral Health Administration's Administrative Service Organization, and the Maryland Pharmacy Program, which are reviewed under three separate audits (as further explained in the Background Information section of this report).

The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included MCPA's monitoring of the services provided by its Managed Care Organizations (MCOs), enrollment and disenrollment of Medicaid recipients in MCOs, payments to MCOs (including MCPA's capitation rate-setting process), and interagency agreements. We also determined the status of four of the five findings contained in our preceding audit report and three of the nine findings contained in our performance audit of MDH's efforts to identify and analyze improper Medicaid payments dated June 23, 2020.

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

Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MCPA.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of April 1, 2019 to March 31, 2022, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions, and to the extent practicable, observations of MCPA's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during the audit.

We also extracted data from the Medicaid Management Information System (such as MCPA and MCO claim payments) for the purpose of selecting test items and performing data analytics. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MCPA's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As

provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MCPA, were considered by us during the course of this audit.

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

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

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

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

Exhibit 1
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of October 2023 (Page 1 of 2)

	Name of Audit	Areas Covered	Most Recent Report Date
1	Office of the Secretary and Other Units	• Office of the Secretary • Deputy Secretary and Executive Director for Behavioral Health • Deputy Secretary for Developmental Disabilities • Deputy Secretary for Public Health • Deputy Secretary for Health Care Financing and Chief Operating Officer • Deputy Secretary for Operations	10/19/23
2	Chronic Care Hospital Centers	• Deer's Head Center • Western Maryland Hospital Center	05/10/23
3	Developmental Disabilities Administration	Developmental Disabilities Administration	10/26/22
4	Behavioral Health Administration and Medical Care Programs Administration - Administrative Service Organization for Behavioral Health Services	• Behavioral Health Administration • Medical Care Programs Administration Administrative Service Organization for Behavioral Health Services	10/25/22
5	Intellectual Disabilities Residential Centers	• Holly Center • Potomac Center • Secure Evaluation and Therapeutic Treatment	10/24/22
6	Regional Institute for Children and Adolescents	• John L. Gildner Regional Institute for Children and Adolescents • Regional Institute for Children and Adolescents – Baltimore	07/13/22
7	Office of the Chief Medical Examiner	Office of the Chief Medical Examiner	05/12/22
8	Prevention and Health Promotion Administration Office of Population Health Improvement Office of Preparedness and Response, and Office of Provider Engagement and Regulation	• Prevention and Health Promotion Administration • Office of Population Health Improvement • Office of Preparedness and Response • Office of Provider Engagement and Regulation – Office of Controlled Substances Administration • Office of Provider Engagement and Regulation – Prescription Drug Monitoring Program	02/23/21
9	Regulatory Services	• 22 Health Professional Boards and Commissions • The Office of Health Care Quality	01/19/21

Exhibit 1
Listing of Most Recent Office of Legislative Audits
Fiscal Compliance Audits of Maryland Department of Health Units
As of October 2023 (Page 2 of 2)

	Name of Audit	Areas Covered	Most Recent Report Date
10	Vital Statistics Administration	Vital Statistics Administration	11/10/20
11	Pharmacy Services	Pharmacy Services for • Medicaid Managed Care Program • Maryland Medicaid Pharmacy Program • Kidney Disease Program • Maryland AIDS Drug Assistance Program • Breast and Cervical Cancer Diagnosis and Treatment Program	08/31/20
12	Spring Grove Hospital Center	Spring Grove Hospital Center	04/22/20
13	Laboratories Administration	Laboratories Administration	04/10/20
14	Clifton T. Perkins Hospital Center	Clifton T. Perkins Hospital Center	03/17/20
15	Medical Care Programs Administration	Medical Care Programs Administration	11/07/19
16	Health Regulatory Commissions	• Maryland Health Care Commission • Health Services Cost Review Commission • Maryland Community Health Resources Commission	04/05/19
17	Thomas B. Finan Hospital Center	Thomas B. Finan Hospital Center	3/26/19
18	Springfield Hospital Center	Springfield Hospital Center	12/6/18
19	Eastern Shore Hospital Center	Eastern Shore Hospital Center	11/19/18

APPENDIX

Maryland
DEPARTMENT OF HEALTH

Wes Moore, Governor · Aruna Miller, Lt. Governor · Laura Herrera Scott, M.D., M.P.H., Secretary

December 7, 2023

Mr. Gregory A. Hook, CPA
Legislative Auditor
Office of Legislative Audits
The Warehouse at Camden Yards
351 West Camden Street, Suite 400
Baltimore, MD 21201

Dear Mr. Hook:

Enclosed, please find the responses to the draft audit report on the Maryland Department of Health – Medical Care Programs Administration – Managed Care Program for the period beginning April 1, 2019 to March 31, 2022.

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

Sincerely,

Laura Herrera Scott, M.D., Secretary
Maryland Department of Health

Enclosures

cc: Erin K. McMullen, R.N., Chief of Staff, MDH
Marie Grant, Assistant Secretary for Health Policy, MDH
Ryan B. Moran, Dr. P.H., Deputy Secretary, Health Care Financing, MDH
Tricia Roddy, Deputy Director, Medicaid, MDH
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Information Security, MDH
Deneen Toney, Deputy Director, Audit & Compliance, MDH
Warren Waters, Jr., Chief of Staff, Health Care Financing, MDH

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Capitation Rate Calculations

Finding 1
MCPA procedures were not sufficiently comprehensive to ensure the validity of MCO-reported expenditure data used in the capitation rate calculation.

We recommend that MCPA develop comprehensive procedures to validate the expenditure data used to calculate MCO capitation rates. Specifically, we recommend that MCPA

a. develop a more comprehensive methodology to verify the propriety of claims, such as consider whether statistical sampling could be used during the review of MCO claims to provide results that can be projected to the population of claims or certain capitation categories; and

b. take appropriate action, including expanding its review, when reviews of MCO claims identify discrepancies.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.	Beginning with calendar year 2019 data, MCPA has engaged an independent accounting firm to conduct a subsequent, stand-alone claims processing agreed upon procedures review on an annual basis. For CY 2019, 300 claims from each MCO were sampled. For subsequent years, there were various tiers an MCO could fall within for the subsequent review based upon the results of the 25 claims mentioned in the report.		
Recommendation 1a	Agree	**Estimated Completion Date:**	3/31/24
Please provide details of corrective action or explain disagreement.	MDH agrees to develop comprehensive procedures to validate the expenditures data used to calculate MCO capitation rate. More specifically, MDH will work with the contracted independent accounting firm to implement changes to the review of MCO financial reports, including studying the question of whether statistical sampling can be incorporated efficiently and cost-effectively to provide results that can be projected to the population of claims or certain capitation categories.		
Recommendation 1b	Agree	**Estimated Completion Date:**	1/1/2024
Please provide details of corrective action or explain disagreement.	MDH agrees to take appropriate action, including expanding its review, when reviews of MCO claims identify discrepancies. In addition, we will work with the contracted independent accounting firm to implement changes to the review of MCO financial reports to lessen the cycle time between initial HFMR reviews and any subsequent additional claims		

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	reviews so that timely action can be taken on the results of those reviews.

Finding 2

MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation.

We recommend that MCPA

a. review claims denied by MMIS II and ensure improper payments are excluded from the expenditure data used in the capitation rate calculation;
b. use available MCO data to ensure duplicate payments are not made for services that are carved out from the MCO contracts (repeat);
c. ensure claims paid for incarcerated individuals are excluded from the expenditure data used in the capitation rate calculation; and
d. take corrective action to address carved out service claims that were improperly paid, including the claims mentioned above (repeat).

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 2a	Agree	**Estimated Completion Date:**	3/31/24
Please provide details of corrective action or explain disagreement.	MCPA agrees to review claims denied by MMIS II and ensure improper payments are excluded from the expenditure data used in the capitation rate calculation. MCO encounters are used in the capitation rate setting process solely for determining service utilization and risk adjustment, not overall capitation rates. Instead, MCOs' financials as reported on the HealthChoice Financial Monitoring Report (HFMR) are used. The HFMR is audited. MDH has established a workgroup with MCOs to clearly identify costs that should not be reported on the HFMR. For		

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	instance, noncovered benefits or duplicate claims should not be reported on the HFMR. However, if a covered benefit was provided, but failed to be accepted by MMIS because there was a missing provider number, those costs should be included. These missing costs could jeopardize the actuarial soundness of the capitation rates. MDH will be developing the oversight mechanisms to determine how to monitor these encounters and costs. MDH will continue to work on policies to improve the encounter data submission processes to reduce these rejected encounters.		
Recommendation 2b	Agree	**Estimated Completion Date:**	6/30/2024
Please provide details of corrective action or explain disagreement.	MCPA agrees to use available MCO data to ensure duplicate payments are not made for services that are carved out from the MCO contracts. Specifically, MDH will work with the State University to develop a reconciliation that reviews behavioral health ASO claims and MCO encounters to detect duplicate payments for carved-out behavioral health diagnoses. From there, the data will be evaluated to determine whether the MCO or the BHASO will retract payment. Additionally, MDH will ensure MCOs receive timely notification of additions to the carved-out diagnoses list in order to update their claims payment logic.		
Recommendation 2c	Agree	**Estimated Completion Date:**	12/ 31/2023
Please provide details of corrective action or explain disagreement.	MCPA will ensure claims paid for incarcerated individuals are excluded from the expenditure data used in the capitation rate calculation. Standard operating procedures will be developed to ensure compliance.		
Recommendation 2d	Agree	**Estimated Completion Date:**	Complete

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Please provide details of corrective action or explain disagreement.	MCPA has taken corrective action to address carved out service claims that were improperly paid, including the claims mentioned above. During the audit, MDH provided a spreadsheet identifying the appropriate payor for each of the claims/encounters in the OLA sample and instructed the payor who was not responsible to recoup funds from the provider due to duplication. All claims were successfully recouped. Future claims subject to the audit described in Recommendation 2b will follow the same process. For the 309 incarcerated recipients OLA stated that claims were paid for in error, MCPA will disenroll the consumer at the end of the month and verify the individual is an inmate once the review of the list has been completed. MDH will ensure this process continues to be followed to avoid erroneous capitated payments.

Improper Medicaid Payments

Finding 3
MCPA did not have an effective process to identify capitation payments to MCOs for incarcerated individuals, resulting in approximately $14 million in improper payments during fiscal years 2019 to 2022.

We recommend that MCPA

a. work with DPSCS to obtain complete and accurate incarceration data for its match (repeat) and engage the assistance of the Department of Budget and Management Audit Compliance Unit as necessary to resolve the matter,
b. ensure incarcerated individuals are timely disenrolled from MCOs to prevent improper capitation payments (repeat), and
c. investigate the potential improper payments we identified and take corrective action (such as recovery of improper payments) (repeat).

Agency Response	
Analysis	**Factually Accurate**
Please provide additional comments as deemed necessary.	

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Recommendation 3a	Agree	**Estimated Completion Date:**	3/31/2024
Please provide details of corrective action or explain disagreement.	MCPA will continue to partner with DPSCS to obtain complete and accurate incarceration data for its match process and will work to identify other sources of accurate data to enhance the identification of incarcerated individuals.		
Recommendation 3b	Agree	**Estimated Completion Date:**	12/31/2023
Please provide details of corrective action or explain disagreement.	MCPA will ensure incarcerated individuals are timely disenrolled from MCOs to prevent improper capitation payments. When MCPA is notified through an automated process or manually validates an individual's incarceration status, the necessary steps to ensure individuals are disenrolled timely are taken.		
Recommendation 3c	Agree	**Estimated Completion Date:**	12/31/23
Please provide details of corrective action or explain disagreement.	MCPA continues to investigate approximately $14 million of potential improper claims payments representing 3,539 individuals. It is anticipated the review will be completed by the end of 2023. Once the review is complete, corrective action will be taken to include the recovery of improper payments, if appropriate.		

MCO Supplemental Payments

Finding 4
MCPA did not investigate and recover potentially improper supplemental payments to MCOs for newborn deliveries totaling $10.4 million.

We recommend that MCPA

a. investigate the propriety of all potentially improper newborn delivery supplemental claims; and

b. recover any amounts paid for improper claims, including those noted above.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	**Estimated Completion Date:**	1/31/2024

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Please provide details of corrective action or explain disagreement.	MCPA agrees to investigate the propriety of all potentially improper newborn delivery supplemental claims. MDH has established a methodology to determine whether a delivery has taken place using encounter data and newborn enrollment files. MDH is also pursuing a data sharing agreement with the Vital Statistics Administration to validate birth events. If the payment cannot be corroborated by any of these sources, MDH will require the MCOs to submit the demographic information and delivery note, or proof of newborn enrollment, to validate the delivery event took place. If the MCO cannot furnish any information to support the payment within 45 days of the request, MDH will retract the supplemental payment from the MCO.		
Recommendation 4b	Agree	**Estimated Completion Date:**	Complete
Please provide details of corrective action or explain disagreement.	MCPA has recovered all amounts paid for improper claims noted during the OLA audit. After determining that 10 of the 20 claims chosen as a sample for the audit were improper, MDH retracted the supplemental payments to those MCOs on December 16, 2022. After the recovery, one MCO challenged the retraction and successfully furnished evidence that the delivery event that took place for the claim was a home birth. We permitted the MCO to resubmit the claim for the supplemental payment, resulting in 9 retractions from the audit sample.		

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