

## Status of Resolution of Audit Findings

December 2012

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 1006745

**Finding Number:** 002

**Finding:** Medicaid's payment system lacks adequate internal controls to prevent overpayments to providers of certain durable medical equipment.

**Resolution:** A system edit has been added to ProviderOne. The edit suspends oxygen claims for rentals past 36 months. Claims adjudicators manually check the dates on the suspended claims and deny claims for rental charges for unallowable months.

In addition, the Health Care Authority has identified for recoupment payments in excess of 36 months that occurred prior to implementation of the system edit.

**Agency Contact:** Cathie Ott  
State Health Care Authority  
PO Box 45511  
Olympia WA 98504-5511  
(360) 725-2116  
ottcl@hca.wa.gov

## Status of Resolution of Audit Findings

December 2012

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 1006745

**Finding Number:** 003

**Finding:** Untimely data sharing led to duplicate payments by Medicaid and L&I.

**Resolution:** The Health Care Authority (Authority) completed the collection of a sample of the overpayments that were identified in the audit as having been made by the Authority from July 2008 to the present. This was a one-time data exchange between the Department of Labor and Industries (L&I) and the Authority. After this analysis was completed, the Authority requested the full universe of the Authority's overpaid claims be shared so that recoupment could be done on those as well.

Currently the Authority is manually processing recoveries on over 7,000 matches at a rate of 50-70 case resolutions per month. This work is expected to continue into the second quarter of 2013, depending upon whether the monthly automated data match between L&I and the Authority is successful.

For ongoing improvement, the Authority and L&I are developing a monthly data match using current claims from the L&I's data warehouse. The two agencies are currently working to develop initial data sets with the effort expected to be completed by June 2013.

Refer also to the L&I resolution for this finding on page 44.

**Agency Contact:** Andy Renggli  
State Health Care Authority  
PO Box 45500  
Olympia WA 98504-5500  
(360) 725-1207  
andy.renggli@hca.wa.gov

## Status of Resolution of Audit Findings

December 2012

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 037

**Finding:** The Health Care Authority and the Department of Social and Health Services do not have adequate controls to correctly report all Medicaid expenditures that are eligible for additional Children Health Insurance Program (CHIP) funds.

**Resolution:** The Health Care Authority (Authority) agrees with the finding and has taken the following corrective action:

- In November 2011, the Authority retroactively transferred all eligible managed care claims to CHIP. The Authority is currently working with the Department of Social and Health Services' Aging and Disability Services Administration (ADSA) to ensure all eligible Medicaid claims for clients are transferred to CHIP.
- The Authority now monitors CHIP funds on a monthly basis, and an internal staff workgroup conducts an additional review using an Excel tracking spreadsheet with data from the state's accounting system (Agency Financial Reporting System) to ensure accuracy and proper use of funds.
- The Authority developed a report using data from its Medicaid Management Information System to identify claims by recipient aid category and federal poverty level based on net income.
- Effective July 1, 2012, the Authority implemented a new methodology for accounting for Section 107 children using eligibility data from ProviderOne. Section 107 clients are Medicaid eligible children under age 19 with family income that equals or exceeds 133 percent of the federal poverty level, but is below 200 percent.

Refer to page 71 for response from the Department of Social and Health Services.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

## Status of Resolution of Audit Findings

December 2012

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 038

**Finding:** The Health Care Authority does not comply with state law and the federal Deficit Reduction Act of 2005, increasing the likelihood that the state is paying claims that should have been paid by liable third parties.

**Resolution:** The Health Care Authority (Authority) continues to disagree with this finding. The Authority maintains that it is in compliance with the Deficit Reduction Act of 2005 (DRA) and applicable state law. The Authority meets this standard by making data available to all insurers to use for third party liability (TPL) reporting and by matching data directly with those insurers most likely to provide third party coverage to Medicaid recipients.

To enhance its recovery effort, the Authority submitted a system change request to incorporate a tool that the federal Centers for Medicare and Medicaid Services (CMS) has identified for DRA data exchange requirements. This activity could not be pursued until CMS issued its guidance in June 2010. The Authority will implement the change request based on prioritization against all other system change requests in their order of importance.

The Authority's position on compliance was corroborated by an independent review conducted by Health Management Systems (HMS) in March 2010. That review stated, "HMS's review of the DSHS confirms a strong Medicaid TPL program..." This report also noted areas of industry best practices that the Authority could explore to enhance its cost avoidance and recovery. As a result of this review, the Authority entered into a contract with HMS to strengthen and improve its efforts in the area of TPL recoveries as HMS provides for enhanced data matching to better identify a client's medical insurance coverage. The contracted activities include: conducting electronic data exchanges with health insurers, and verifying and updating the insurance eligibility of Medicaid recipients for billing liable third parties on behalf of the Authority.

Although the Authority has been in compliance with the DRA since it was passed into law in April 2007, the above actions demonstrate how the Authority continues to improve ways to share Medicaid information with health insurers so the state is not paying for claims that should have been paid by a liable third party.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 039

**Finding:** The Health Care Authority did not investigate information on potential Medicaid fraud or abuse in accordance with federal law, risking the loss of Medicaid resources.

**Resolution:** The Health Care Authority (Authority) does not agree with the finding that there is a "lack of timely follow through on returned surveys," as there are no federal timeline requirements for medical services verification surveys.

The Authority prioritizes its program integrity/surveillance and utilization resources in areas that have proven to yield a high return on investment. Data analytics have proven in the past to better identify suspicious provider patterns. Past investigations have been targeted on cases that have the highest potential to lead to a fraud or audit referral.

The auditor asked the Authority to review 10 surveys that the auditor believed merited a full investigation. Authority staff determined that several of the claims contained inaccurate information stemming from inaccurate information and conversion data linked to the implementation of ProviderOne, the Authority's new Medicaid Management Information System. Of the 10, only one was ultimately found to be worthy of a full investigation.

The Authority conducted an initial review on all returned surveys received between January 1 and June 30, 2011, to determine whether further review and prioritization of individual cases were warranted for detection of Medicaid fraud.

The Surveillance and Utilization Review unit triages returned medical services verification surveys to follow up as resources are available.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 040

**Finding:** The Health Care Authority's internal controls are insufficient to ensure payment rates for its Healthy Options managed care program are accurate.

**Resolution:** The Health Care Authority (Authority) continues to disagree with this audit finding. There are sufficient controls in place to ensure that managed care rates are set based on the verified managed care organizations' (MCO) actual costs of care. Actuarially certified, proprietary cost information is submitted directly to the Authority's actuary. The actuary verifies the information submitted by comparing it to audited financial statements submitted to the Office of the Insurance Commissioner and encounter data submitted to the Authority. As part of the verification, the actuary has the MCOs complete a reconciliation of cost information with encounter data. The actuary also does analysis of prior years, compares MCOs to each other, and resolves outliers that arise from its verification and analyses with the MCOs.

The MCOs each have fraud and abuse controls. The controls provide reasonable assurance that the data used in rate setting is accurate and complete. This assertion is supported by the fact that the Authority has had no findings regarding rate setting in the Centers for Medicare and Medicaid Services (CMS) reviews and has had its rates consistently approved by CMS with their full understanding of the rate setting methodology.

Even though the Authority disagrees with the finding, it has developed a plan for validation of encounter data which the Authority intends to implement by June 2013.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 041

**Finding:** The Health Care Authority does not perform a retrospective drug use review of pharmaceutical claims data to identify patterns of fraud or abuse as required by federal law.

**Resolution:** The Health Care Authority (Authority) disagrees with this finding. The auditor asserts that the Authority does not perform a retrospective drug use review of pharmaceutical claims data to identify patterns of fraud or abuse as required by federal law.

In fact, the Authority performs ongoing periodic examinations of claims data and other records in order to identify patterns of fraud, abuse, gross overuse, or inappropriate or medically unnecessary care among physicians, pharmacists, and Medicaid recipients, or associated with specific drugs or groups of drugs, as required by federal regulations.

The Authority agrees that the specific federal regulations cited by the auditor require the Authority to have a retrospective drug use review program through which it conducts ongoing periodic examinations, at least quarterly, of claims data and other records in order to identify patterns of fraud, abuse, gross overuse, or inappropriate or medically unnecessary care. However, the auditor's analysis is in error because it fails to cite or apply a second federal regulation that acknowledges that the retrospective drug use review requirements in federal regulations cited by the auditor are duplicative of the Surveillance and Utilization Review requirements. The Surveillance and Utilization Review requirements expressly permit the Authority "to limit review activities to those that focus on what constitutes appropriate and medically necessary care to avoid duplication ...." This is precisely what the Authority has done. The Authority operates a robust Surveillance and Utilization Review program. The Authority, in full compliance with federal law, focuses its retrospective drug use review activities on ensuring appropriate and medically necessary care.

The auditor states that "[t]he Authority believes its review of the medical appropriateness of prescribing and dispensing drugs is sufficient to fulfill the fraud and abuse-related requirements of federal law." This is incorrect. Again, it is the Authority's Surveillance and Utilization Review program that fulfills the fraud and abuse-related requirements of federal law. In accordance with federal law the Authority's retrospective drug use review program focuses on what constitutes appropriate and medically necessary care and does not duplicate the fraud and abuse activities under the Surveillance and Utilization Review program. Other business units within the Authority perform analysis in the remaining areas of concern to the auditor, per federal regulations that allow states to limit the review activity of Drug Utilization Review staff to avoid duplication of activities related to fraud and abuse.

The auditor states that "[the Authority] has not provided us any information on how often or how it does that analysis." The Auditor also states that "the Authority is not analyzing

## Status of Resolution of Audit Findings

December 2012

pharmaceutical claim data and other records to identify patterns of fraud, abuse, or misuse of Medicaid funds..." Both of these statements are incorrect.

The Authority has extensive detection programs that address potential fraud and abuse by clients, prescribers, and pharmacies. The Office of Program Integrity's Payment Review Program, Surveillance and Utilization Review program, and Medical Audit unit analyze, review, and audit pharmacy claims data to identify potential Medicaid fraud, waste, or abuse. The Patient Review and Coordination Program analyzes client data to set restrictions on high risk clients and identify aberrant prescribing patterns by providers. A third party contractor compares provider data with peers and follows up with prescribers who show ongoing aberrance in their prescribing practices. And the Quality Management Team investigates complaints or information about quality of care issues or concerns, and evaluates and documents the information in a case tracking database.

**Agency Contact:**

Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

**Status of Resolution of Audit Findings**

December 2012

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 042

**Finding:** The Health Care Authority did not adequately monitor sub-recipients to ensure Medicaid expenditures are allowable and supported.

**Resolution:** The Health Care Authority (Authority) agrees with the finding. To improve oversight, the Medicaid administrative match program added a fiscal component to all monitoring activities of school districts and local health jurisdictions.

Effective June 1, 2012, the fiscal monitoring activity includes the following for the time frame monitored:

- The actual salaries and benefits of participants selected through a random sampling process are compared to salaries and benefits claimed.
- Direct and indirect claimed costs are also reviewed.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

## Status of Resolution of Audit Findings

December 2012

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 043

**Finding:** The Health Care Authority does not have adequate controls to ensure Medicaid is the payer of last resort.

**Resolution:** The Health Care Authority (Authority) disagrees with this finding. The Office of Program Integrity currently has two full time auditors dedicated to reviewing pharmacy third party liability (TPL) claims for inappropriate use of override codes. It may be that additional system enhancements could strengthen controls over the use of overrides. The Authority will continue to communicate with and educate pharmacy providers on the proper use of TPL override codes.

In addition, the Authority has strengthened and improved efforts in the area of TPL recoveries by contracting with Health Management Systems (HMS) to augment recovery efforts. This is done by performing enhanced data matching available through HMS to better identify a client's medical insurance coverage. The contracted activities include conducting electronic data exchanges with health insurers and verifying and updating the insurance eligibility of Medicaid recipients for billing liable third parties on behalf of the Authority.

With the enhanced data matching, the Authority has mitigated the potential loss of recoveries and the inappropriate use of override codes. This is a much more cost effective way to enforce TPL controls.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 044

**Finding:** The Health Care Authority improperly claimed \$111,108.98 in federal reimbursement for the Medicaid program.

**Resolution:** The Health Care Authority (Authority) agrees with this finding. The Authority concurs that of the 183 clients reported by the auditors, 152 clients appear to have received some benefits in error. While the payments cited by the auditor are a relatively small amount of the funds handled by the Authority, the Authority continues to target 100 percent accuracy in payments. In response to the finding:

- The Authority reviewed all the payments cited by the auditor to deceased persons or other ineligible people and identified and corrected payments made in error after the person's date of death or made to someone other than the rightful holder of the social security number (SSN) in question. Past findings involving SSN matching have often proven to be explainable, such as a widow continuing to cite a spouse's SSN.
- The Authority arranged repayment of any federal funds received in error following completion of the reviews in April 2012.

The Authority continues to strengthen procedures to improve accuracy of all payments and claims that are paid for unallowable services. The Authority provides some programs for nonqualified and undocumented aliens that utilize multiple funding streams to pay for services that are not allowed by federal matching dollars. A portion of the transaction errors identified by the auditors related to clients in programs that have these multiple funding streams.

When an error is discovered, it is corrected going forward; however, the Authority does not set up overpayments unless there is intentional fraud that is being prosecuted. The Authority strengthens procedures on an ongoing basis through Medicaid Eligibility Quality Control (MEQC) reviews and monthly reports. The Authority self-monitors errors through monthly reports sent to field staff for correction. When these reports are not corrected timely, there is a meeting between upper management from the Authority and the Community Service Division of the Department of Social and Health Services (DSHS). These reports are included in a monthly round up and sent to DSHS management.

The Authority will address the issue of questioned costs with the U.S. Department of Health and Human Services.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 045

**Finding:** The Health Care Authority does not have adequate controls to ensure controlled substances prescribed for Medicaid clients are authorized and allowable.

**Resolution:** The Health Care Authority (Authority) continues to disagree with this finding. There are no federal or state statutes that require a payer (e.g., the Authority) to validate the Drug Enforcement Administration (DEA) number of a prescriber. Therefore, the Authority disagrees that the lack of an edit that validates DEA for Schedule 2-5 drugs constitutes inadequate internal controls or that the lack of such validation renders the payment unallowable.

The Authority believes that responsibility for compliance with controlled substance requirements lies with the prescribing provider and the dispensing pharmacies. The federal Controlled Substance Act and the State Uniform Controlled Substance Act do not regulate payment for controlled substances, and there are no provisions in either that could be interpreted as a requirement relating to payment of claims for controlled substances. The following federal regulation clearly states that the prescribing practitioner is responsible for assuring that the prescription conforms in all essential respects to the law and regulation:

"A prescription for a controlled substance to be effective must be issued for a legitimate medical purpose by an individual practitioner acting in the usual course of his professional practice. The responsibility for the proper prescribing and dispensing of controlled substances is upon the prescribing practitioner, but a corresponding responsibility rests with the pharmacist who fills the prescription."

This finding indicates that "the Authority has procedures to ensure a prescriber of schedule 2 drugs has a DEA number, but the procedures do not verify whether the DEA number is valid." That statement is incorrect. The Authority's Pharmacy Point of Sale (POS) system maintains a prescriber network of known National Provider Identifier (NPI) to DEA associations, and it is updated by state staff as new associations become known. System functionality includes manual updates to a "blocked prescriber list" that identifies prescriber DEAs prevented from prescribing Schedule 2 drugs. Claims for Schedule 2 drugs are validated against the DEAs on the prescriber network. The problem identified by the auditor is not a lack of validation. Rather, the DEA regular file update is received into the POS on a monthly basis, resulting in a lag in the DEA effective dates and a discrepancy with the DEA file that the auditor used to conduct the audit. As noted in previous years, there continues to be no complete external file that accurately and completely associates NPI to DEA.

In addition to the POS edit that validates the DEA for Schedule 2 drugs, the Authority has a set of robust program integrity activities including pharmacy utilization review, pharmacy rules-based algorithms that identify improper payments, and data mining activities that

## Status of Resolution of Audit Findings

December 2012

identify patterns outside the norm. In the absence of any requirement to validate the DEA number for controlled substances, the Authority believes this set of program integrity activities provides adequate controls to ensure that controlled substances are authorized and allowable.

The Authority will address the issue of questioned costs with the U.S. Department of Health and Human Services.

**Agency Contact:**

Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

## Status of Resolution of Audit Findings

December 2012

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 046

**Finding:** The Health Care Authority did not have adequate controls to ensure violations of Medicaid laws and regulations by providers are identified and are referred to the Medicaid Fraud Control Unit (MFCU), risking the loss of public resources.

**Resolution:** The Health Care Authority (Authority) disagrees with this finding. The Authority has adequate controls to ensure that violations of Medicaid law and regulations are identified and referred to the Medicaid Fraud Control Unit. This is supported by a review of cases in the Case Tracking System and the timeliness in which they are worked. The Case Tracking System is used to track a variety of cases; thus, the time frames in which those cases are resolved does not necessarily lead to the conclusion of inadequate controls.

Processes are in place to prioritize the work of Surveillance and Utilization Review Subsystem investigators, ensuring that the Authority is addressing those cases with the highest potential for fraud, waste, and abuse. These are also the cases that yield the highest return on investment.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 047

**Finding:** The Health Care Authority's internal controls are inadequate to ensure non-emergency medical transportation expenditures are allowable and adequately supported.

**Resolution:** The Health Care Authority (Authority) agrees with the finding, but notes that the solution to these issues is now in place. The auditor's report stated incorrectly that the trip information database has not improved.

During state fiscal year 2011, the Authority built a trip information database that can be used to verify that all Medicaid rules are followed and that all services the transportation brokers provide are legitimate, reasonable, and adequately supported. The database includes new data fields that will allow the Authority to more closely monitor transportation services, operations, and expenditures.

Brokers began adding information to the system in early 2011, and the Authority was able to test the new database with positive results between March 2011 and June 2011.

Other monitoring activities include:

- Desk audits using state auditor monitoring tools.
- Review of financial and operating reports.
- Review of fleet inventories and inspection schedules.
- Monthly review of brokers' invoices and reports.
- Review of broker reports of incidents and accidents.
- Review of brokers' annual independent audits.

From July 2011 through December 2011, the Authority conducted on-site monitoring of all six transportation brokers with the new trip information database and found all six to be in compliance with Medicaid rules and regulations.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov

---

---

**State Health Care Authority (HCA)**

**Agency: 107**

---

---

**Audit Report:** 2011 F

**Finding Number:** 048

**Finding:** The Health Care Authority does not have adequate controls to ensure providers meet initial and ongoing eligibility requirements to participate in the Medicaid program.

**Resolution:** The Health Care Authority (Authority) partially agrees with the finding and has implemented many of the audit recommendations.

The Provider Enrollment Unit now ensures appropriate provider licensing eligibility upon initial enrollment and throughout the provider's enrollment. The Authority also has established a data-sharing agreement with the Department of Health (DOH) that automatically updates providers' licensing information. This ensures the Provider Enrollment Unit consistently receives the most current provider licensing information daily. If a DOH license has expired, the Authority is notified and the ProviderOne payment system ends the taxonomy associated with the provider's file, preventing further payments.

As of March 25, 2011, the Patient Protection and Affordable Care Act introduced new screening procedures for providers and suppliers. The Act identifies durable medical equipment (DME) providers as moderate to high risk business partners who warrant unscheduled, unannounced site visits. The Authority is finalizing written policies and procedures to comply with the Act. The Authority estimates it will meet this requirement in January 2013. The Authority also has requested computer system changes that will add mandatory data fields needed for compliance with the federal law.

The Authority has resumed site visits with newly enrolled DME providers. The Authority is also planning revalidation site visits for DME suppliers not currently enrolled with Medicare or another state's Medicaid agency. The Centers for Medicare and Medicaid Services only requires these providers to be revalidated once every five years. Federal law allows the Authority to rely on screening, including site visits, conducted by Medicare or another state's Medicaid agency.

**Agency Contact:** Annette Rumsey  
State Health Care Authority  
PO Box 42702  
Olympia WA 98504-2702  
(360) 725-0443  
annette.rumsey@hca.wa.gov