

**Presentation to the North Carolina General Assembly
Joint Legislative Oversight Committee on
Health & Human Services**

September 11, 2012

**Synopsis of Financial Related Audit
Department of Health and Human Services
Division of Medical Assistance
Selected Contracts with Vendors
To Identify Improper Payments**

North Carolina Office of the State Auditor

Scope of the Audit – July 1, 2010 through January 31, 2012 (19 months) and included selected internal controls and financial management practices in the following organizational units:

- Division of Medical Assistance (DMA)
- Division of Information Resource Management
- Program Integrity Section of DMA

Audit focus – Miscellaneous Contractual Services Expenditures account and specifically covered the Departments contracts with:

- International Business Machines Corporation (IBM)
- SAS Institute, Inc. (SAS)
- Public Consulting Group, Inc. (PCG)
- Health Management System, Inc. (HMS)

\$23 Million reported expenditures during audit period for above listed contracts.

Auditors examined internal controls designed to ensure the following:

- Department properly accounts for the expenditures,
 - That purchases comply with state purchase and contract requirements, and
 - Proper services were received prior to payment
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- Additionally, auditors evaluated whether the benefits derived from the contracts exceeded the contract costs.

Findings:

Finding 1. Deficiencies Related to International Business Machines Corporation (IBM) Contract

Description of Contracts:

Contract 1

Purchase of 2 analytic software solutions

- Fraud & Abuse Management System (FAMS)
- InfoSphere Identity Insight (InfoSphere)

FAMS - To detect fraudulent or abusive practices by healthcare providers

Infosphere – To detect suspicious billing patterns

Deliverables and Payments

- IBM paid monthly – 10% of total monetary amount of recoupment letters issued/month
- IBM paid whether Division recouped the money requested or not
- IBM guaranteed minimum of \$1.5million with not-to-exceed \$6 million
- IBM actually paid \$5,999,996

Contract 2

Cost - \$1.6million

Paid for additional training and modules to support efforts using FAMS

Issues

- Payments not tied to IBM deliverables established in the contract
- Payments based on gross potential recoupments (of all DMA efforts) vs recoveries attributable to use of IBM software products.

As of end of audit period, Potential IBM Related Recoupment	\$770,067
Actual IBM Related Recoupment	426,756

Return on Investment:

Contract proposal, expected annual return on investment	900%
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Per contract terms, IBM does not represent or warrant that its services or any deliverables will guarantee any particular result.

Recommendations:

- Payment methodologies should correspond to deliverables in contract
- Vendor Performance should be tied directly to outputs
- Recoupment related to IBM software should be considered when computing return on investment.

Finding 2: Deficiencies Related to SAS Institute, Inc. (SAS) Contract

- Payments made under contract did not coincide with completion and acceptance of deliverables
- Current return on investment not reached

Description of Contract:

Contract signed December 2010

Option to renew for two additional one-year contract periods

Software designed to use data analytics to cross-check and validate participant eligibility information at the earliest point in the process.

Cost \$2 million

- \$1 million due upon initiation of data review
- \$500,000 due at peer grouping/anomaly detection phase completed
- \$500,000 due upon full operation of system

Deliverables and Payments

- Milestone not met – SAS paid anyway
- Payments made without approval and acceptance of deliverables
- Tracking tool maintained – tool not completed as designed

Return on Investment:

Contract proposal, expected annual return on investment 1250% or \$27M

No funds recovered – no actual fraudulent activity identified

Recommendations:

- Payment methodologies should correspond to deliverables in contract
- Vendor Performance should be tied directly to outputs
- Written authorization for advance payments should be obtained by Department

Finding 3. Deficiencies Relate to Public Consulting Group, Inc. (PCG) Contract

Division of Medical Assistance has not sufficiently monitored PCG's performance to ensure the quality of work performed.

As a result, questionable results have been achieved

Description of Contract

PCG to support Program Integrity's efforts to conduct post payment reviews of selected Medicaid providers

Post payment reviews examine clinical decisions:

- Medical appropriateness, duration and intensity of services provided
- Administrative decisions – compliant with clinical policy/adequacy of documentation to support billed services

Reviews are to be conducted in accordance with:

- Audit/review tools provided by the Division
- Instructions provided by the Division
- Division is supposed to monitor the quality of reviews

Deliverables and Payables

Contingency fees aligned with "identified" recoupment amounts

PCG paid \$3.2 million during our audit period

Issues:

- Division not implemented consistent monitoring processes for evaluating contract results
- Division not monitored the inter-rater reliability by PCG staff (the degree of agreement and consistency among raters)
- Inconsistencies between Program Integrity staff and Clinical Policy staff in guidance provided to PCG staff when consulted

As of January 2012 PCG sent 107 tentative notices of overpayments related to personal care services

Per OSA review 78 (73%) providers are appealing

Return on Investment

Division records indicate potential recoupment identified \$38.5 million

Actual recoupment \$3.7 million (10%)

Recoupment identified not proven to be reliable so benefit being derived from the contract is unclear.

Recommendations

- Division should develop policies and procedures to evaluate accuracy and effectiveness of reviews performed by PCG
- Division should continue to provide training to PCG staff
- Division should address results of re-reviews of previously completed reviews

Other Observations:

Health Management System, Inc. (HMS)

Description of Contract

Provides variety of services – includes:

- Identification of entities subject to third party liability recovery
- Automated matching of Medicaid eligibility files searching for third party liabilities,
- Uploading third party insurance policy information into Medicaid Eligibility Information system, and
- Payment recovery processes from providers and insurance companies

Return on Investment

HMS generated \$158 M in total recoveries

Payments due to HMS \$15 M

Recovery amounts substantially exceeded contractor payments.