



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region V
233 North Michigan Avenue
Suite 1360
Chicago, IL 60601

April 19, 2011

Report Number: A-05-10-00062

Ms. Olga Dazzo
Director
Michigan Department of Community Health
201 Townsend Street
Lansing, MI 48913

Dear Ms. Dazzo:

Enclosed is the U.S. Department of Health & Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of Michigan's Payment Error Rate Measurement Corrective Action Plan*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to contact Lynn Barker at 317-226-7833 or through email at Lynn.Barker@oig.hhs.gov. Please refer to report number A-05-10-00062 in all correspondence.

Sincerely,

/James C. Cox/
Regional Inspector General
for Audit Services

Enclosure

cc:

Ms. Pam Myers

Audit Liaison

Michigan Department of Community Health

400 South Pine Street

Lansing, MI 48933

Direct Reply to HHS Action Official:

Ms. Jackie Garner

Consortium Administrator

Consortium for Medicaid and Children's Health Operations

Centers for Medicare & Medicaid Services

233 North Michigan Avenue, Suite 600

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Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF MICHIGAN'S PAYMENT
ERROR RATE MEASUREMENT
CORRECTIVE ACTION PLAN**



Daniel R. Levinson
Inspector General

April 2011
A-05-10-00062

Office of Inspector General

<http://oig.hhs.gov>

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OFFICE OF AUDIT SERVICES FINDINGS AND OPINIONS

The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

EXECUTIVE SUMMARY

BACKGROUND

Pursuant to Title XIX of the Social Security Act, the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program.

The Improper Payments Information Act of 2002 (IPIA) requires the head of a Federal agency with any program or activity that may be susceptible to significant improper payments to report to Congress the agency's estimates of the improper payments. In addition, for any program or activity with estimated improper payments exceeding \$10 million, the agency must report to Congress the actions that the agency is taking to reduce those payments. Section 2(f) of the IPIA requires the Director of the Office of Management and Budget (OMB) to prescribe guidance on implementing IPIA requirements.

CMS developed the Payment Error Rate Measurement (PERM) program to comply with IPIA and OMB requirements for measuring improper Medicaid program and Children's Health Insurance Program (CHIP) payments. CMS intended for the PERM program to measure improper payments made in Medicaid's fee-for-service (FFS) component in fiscal year (FY) 2006 and to measure improper payments made in the FFS, managed care, and eligibility components of Medicaid and CHIP in FY 2007 and future years. In addition, IPIA requires a State to report on what actions it will take to reduce improper payments.

Pursuant to CMS's interim final rule contained in 71 Fed. Reg. 51050 – 51085 (August 28, 2006) corrective action plans' format should include the following: data analysis, program analysis, corrective actions, implementation, as well as monitoring and evaluation.

In Michigan, the Department of Community Health (State agency) is responsible for administering the Medicaid program, which includes the PERM program.

CMS issued its FY 2006 Medicaid FFS PERM report for Michigan in September 2008. The report contained a detailed analysis of Michigan's Medicaid FFS component payment error rate for Medicaid claims. In response to the report, the State agency submitted its corrective action plan in March 2009. The State agency's corrective actions contained in its CMS-approved corrective action plan identified three major sources of errors: no documentation, insufficient documentation, and policy violations.

To address these errors, the State agency indicated that it would:

- develop and publish a provider education article in the Provider Inquirer Newsletter,
- develop a provider outreach presentation to be given at various outreach sessions,
- develop and publish policy letters for providers, and

- monitor provider support emails and questions.

OBJECTIVES

Our objectives were to determine whether the State submitted corrective action plans for PERM results in accordance with Federal regulations and implemented corrective actions as stipulated in its CMS-approved corrective action plan.

SUMMARY OF FINDINGS

The State agency submitted its corrective action plan for PERM results in accordance with Federal regulations. However, the State agency did not implement all PERM corrective actions as stipulated in its CMS-approved corrective action plan, because the State agency did not have the necessary procedures in place. Specifically, the State agency did not:

- publish a PERM-related educational article in any of its quarterly Provider Inquirer Newsletters during 2009,
- send policy statement letters to all providers, and
- adequately monitor provider support emails and questions.

Because the State agency did not execute all PERM corrective actions as stipulated in its CMS-approved corrective action plan it is possible that documentation and policy errors will continue.

RECOMMENDATIONS

We recommend that the State agency:

- publish a provider educational article in its quarterly Provider Inquirer Newsletters,
- send policy statement letters to all providers, and
- develop an effective system to monitor provider emails and questions.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our first and third recommendations. Regarding our second recommendation, the State agency said in order to be cost effective and avoid confusion, it only sent policy statement letters to providers selected for the upcoming PERM audit sample. In addition, the State agency said policy statement letters are always available to all providers for review on its website.

The State agency's comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. While we recognize that the policy statement letters are now available on the State agency website, they were not always available on the website prior to our audit.

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INTRODUCTION

BACKGROUND

Medicaid Program

Pursuant to Title XIX of the Social Security Act, the Medicaid program provides medical assistance to low-income individuals and individuals with disabilities. The Federal and State Governments jointly fund and administer the Medicaid program. At the Federal level, the Centers for Medicare & Medicaid Services (CMS) administers the program. Each State administers its Medicaid program in accordance with a CMS-approved State plan. Although the State has considerable flexibility in designing and operating its Medicaid program, it must comply with applicable Federal requirements. In Michigan, the Department of Community Health (State agency) is responsible for administering the Medicaid program.

Improper Payments Information Act of 2002

The Improper Payments Information Act of 2002¹ (IPIA), P.L. No. 107-300, requires the head of a Federal agency with any program or activity that may be susceptible to significant improper payments to report to Congress the agency's estimates of the improper payments. In addition, for any program activity with estimated improper payments exceeding \$10 million, the agency must report to Congress the actions that the agency is taking to reduce those payments. Pursuant to section 2(f) of the IPIA, the Director of the Office of Management and Budget (OMB) has issued guidance on implementing IPIA requirements.

Improper Payments Information Act of 2002 Implementation Guidance

Unless a written waiver is obtained from OMB, OMB Circular A-123, Appendix C, requires an agency to:

Review all programs and activities and identify those which are susceptible to significant erroneous payments. . . . Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities. . . . Implement a plan to reduce erroneous payments. . . . [and] Report estimates of the annual amount of improper payments in programs and activities and progress in reducing them.

OMB identified the Medicaid program and the Children's Health Insurance Program (CHIP) as programs at risk for significant erroneous payments. OMB requires the Department of Health and Human Services (HHS) to report the estimated amount of improper payments for each program annually in its accountability report.

¹ The Improper Payments Elimination and Recovery Act of 2010 (IPERA) superseded the IPIA.

Payment Error Rate Measurement Program

CMS developed the Payment Error Rate Measurement (PERM) program to comply with IPIA and OMB requirements for measuring improper Medicaid and CHIP payments. CMS intended for the PERM program to measure improper payments made in Medicaid's fee-for-service (FFS) component in fiscal year (FY) 2006 and to measure improper payments made in the FFS, managed care, and eligibility components of Medicaid and CHIP in FY 2007 and future years.

In September 2008, CMS issued its 2006 Medicaid FFS PERM report for Michigan. The report contained a detailed analysis of the Michigan Medicaid FFS component payment error rate for FY 2006 Medicaid claims. In this report, the most common errors found were no documentation, insufficient documentation to support Medicaid claims, and policy violations.

Federal Regulations

Federal regulations at 42 CFR § 431.950 require States to submit information necessary to enable the Secretary to produce national improper payment estimates for Medicaid and CHIP. In addition, IPIA requires a State to report on what actions it will take to reduce improper payments.

Federal regulations at 42 CFR § 431.992 provide that "The State agency must submit to CMS a corrective action plan to reduce improper payments in its Medicaid and [CHIP] programs based on its analysis of the error causes in the FFS, managed care, and eligibility components."

Pursuant to CMS's interim final rule on Payment Error Rate Measurement, a State's corrective action plan format should include the following: data analysis, program analysis, corrective actions, implementation, as well as monitoring and evaluation. 71 Fed. Reg. 51050, 51071 (Aug. 28, 2006).

Michigan's Corrective Action Plan

In March 2009, the State agency submitted its corrective action plan in response to the 2006 PERM report. The State agency's corrective actions contained in its CMS-approved corrective action plan identified three major sources of errors: no documentation, insufficient documentation, and policy violations.

The State's planned corrective actions to address the no documentation and insufficient documentation errors consisted of educating providers on the:

- Health Insurance Portability and Accountability Act of 1996 (HIPAA) privacy and security rules and the PERM program,
- PERM time constraints and consequences of non-compliance, and
- importance of sending complete medical record information when requested.

The State's planned corrective actions to address the policy violation errors, consisted of educating the providers on the:

- State's policy for required medical record documentation, and
- components required for properly completing pharmaceutical prescriptions.

To implement these corrective actions, the State agency indicated that it would:

- develop and publish a provider education article in the Provider Inquirer Newsletter,
- develop a provider outreach presentation to be given at various outreach sessions,
- develop and publish policy letters for providers, and
- monitor provider emails and questions.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

Our objectives were to determine whether the State submitted corrective action plans for PERM results in accordance with Federal regulations and implemented corrective actions as stipulated in its CMS-approved corrective action plan.

Scope

Our review related to the State agency's corrective action plan addressing the findings disclosed in CMS's FY 2006 Medicaid FFS Component Final Annual Error Rate Report issued for Michigan. We reviewed the State agency's corrective action plan and the implementation of corrective actions performed during calendar year 2009.

We did not review the State agency's overall internal control structure for the Medicaid program. We limited our internal control review to obtaining an understanding of the State agency's process for completing and implementing its PERM corrective action plans.

We performed our field work at the State agency in Lansing, Michigan.

Methodology

To accomplish our objectives, we:

- reviewed Federal regulations related to PERM,
- interviewed State agency officials to obtain an understanding of their role in the PERM process and the implementation of the PERM corrective actions, and

- reviewed the PERM corrective action plan and supporting documentation to determine whether the State agency implemented the corrective action plan.

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

FINDINGS AND RECOMMENDATIONS

The State agency submitted its corrective action plan for PERM results in accordance with Federal regulations. However, the State agency did not implement all PERM corrective actions as stipulated in its CMS-approved corrective action plan, because the State agency did not have the necessary procedures in place. Specifically, the State agency did not:

- publish a PERM-related educational article in any of its quarterly Provider Inquirer Newsletters during 2009,
- send policy statement letters to all providers, and
- adequately monitor provider support emails and questions.

Pursuant to CMS's interim final rule on PERM, corrective action plans should include plans to functionalize the corrective actions, including milestones and a timeframe for achieving error reduction. In addition, States should monitor implemented corrective actions to determine whether the actions are effective and whether milestones are being reached. 71 Fed. Reg. 51050, 51071 (Aug. 28, 2006).

Because the State agency did not execute all PERM corrective actions as stipulated in its CMS-approved corrective action plan it is possible that documentation and policy errors will continue.

RECOMMENDATIONS

We recommend that the State agency:

- publish a provider educational article in its quarterly Provider Inquirer Newsletters,
- send policy statement letters to all providers, and
- develop an effective system to monitor provider emails and questions.

STATE AGENCY COMMENTS

In written comments on our draft report, the State agency concurred with our first and third recommendations. Regarding our second recommendation, the State agency said in order to be cost effective and avoid confusion, it only sent policy statement letters to providers selected for the upcoming PERM audit sample. In addition, the State agency said policy statement letters are always available to all providers for review on its website.

The State agency's comments are included in their entirety as the appendix.

OFFICE OF INSPECTOR GENERAL RESPONSE

After reviewing the State agency's comments, we maintain that our findings and recommendations are valid. While we recognize that the policy statement letters are now available on the State agency website, they were not always available on the website prior to our audit.

APPENDIX



STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
LANSING

RICK SNYDER
GOVERNOR

OLGA DAZZO
DIRECTOR

March 16, 2011

Mr. James C. Cox
Regional Inspector General for Audit Services
Office of Inspector General
Office of Audit Services, Region V
233 North Michigan Avenue
Suite 1360
Chicago, Illinois 60601

Re: Report Number A-05-10-00062

Dear Mr. Cox:

Enclosed is the Michigan Department of Community Health's response to the draft report entitled "Review of Michigan's Payment Error Rate Measurement Corrective Action Plan".

We appreciate the opportunity to review and comment on the report before it is released. If you have any questions regarding this response, please refer them to Pam Myers at Myerspa@Michigan.gov or (517) 373-1508.

Sincerely,

Olga Dazzo
Director

OD:kk

Enclosure

cc: Steve Fitton
Nick Lyon
Pam Myers

**Review of Michigan's Payment Error Rate Measurement
Corrective Action Plan
A-05-10-00062**

Summary of Findings

The State agency submitted its corrective action plan for PERM results in accordance with Federal regulations. However, the State agency did not implement all PERM corrective actions as stipulated in its CMS-approved corrective action plan, because the State agency did not have the necessary procedures in place. Specifically, the State agency did not:

- Publish a PERM-related educational article in any of its quarterly Provider Inquirer Newsletters during 2009,
- send policy statement letters to all providers, and
- adequately monitor provider support emails and questions.

Because the State agency did not execute all PERM corrective actions as stipulated in its CMS-approved corrective action plan it is possible that documentation and policy errors will continue.

Recommendations

We recommend that the State agency:

- publish a provider educational article in its quarterly Provider Inquirer Newsletters,
- send policy statement letters to all providers, and
- develop an effective system to monitor provider emails and questions.

DCH Response

The Department of Community Health (DCH):

- concurs with the recommendation and will publish a provider educational article and post it on the DCH website. However, DCH would like to point out that relevant PERM information is already available to all providers on the DCH website under the "Provider Tips Section" of the Medicaid page.
- acknowledges that policy statement letters were not sent to all Medicaid providers. However, in recognition of the State of Michigan's financial situation and to not cause confusion for all Medicaid providers, a decision was made to send the letter only to those providers that were selected for the PERM audit sample. This is also in keeping with DCH's practice to provide focused communications to relevant provider groups and programs affected. In addition,

all letters are always available to all providers for review on the DCH website. All Michigan Medicaid providers will learn about PERM through published articles and through provider outreach presentations. This allows affected providers to receive notice and is within budget constraints of DCH. There is also relevant PERM information available to all providers on the DCH website.

- concurs with the recommendation and will develop a system to monitor provider emails and questions. All of the staff responsible for the provider inquiry hotline were notified of the PERM contact person for DCH and that person provided a response to PERM questions as they arose. In addition, DCH has a new customer relationship management module in its newly developed Medicaid Management Information System (MMIS), also known as CHAMPS (Community Health Automated Medicaid Processing System). This new module will be used to track emails and calls from providers about PERM.