COORDINATION OF MANAGED CARE ORGANIZATION AUDIT

Circular C-054

Purpose

The purpose of this circular is to provide guidance for the coordination of managed care audits performed by HHSC and the HHSC Inspector General (IG), and to establish roles and responsibilities related to the planning and execution of managed care organization (MCO) audits in order to enhance the effectiveness of the process and to minimize the potential for duplication of effort.

Background

Texas Administrative Code Sections 353.6 and 371.37, Audit of Managed Care Organizations, describe roles and responsibilities related to conducting audits of MCOs. These sections also assign authority to the HHSC Executive Commissioner for establishing policy outlining the roles and responsibilities of divisions, departments, and offices of HHSC in performing audits of participating MCOs.

Medicaid & CHIP Services Department

The Medicaid & CHIP Services Department (MCSD) within HHSC delivers medical care, dental care, behavioral health care and long-term service and supports to eligible members through a network of MCOs. MCSD conducts active and robust financial and operational oversight and monitoring activities of all MCOs. Those internal activities are supplemented by an audit program consisting of financial audits (agreed upon procedures), risk assessment engagements, and performance audits. These assignments are conducted by outside contractors selected by MCSD. The scope of each risk assessment engagement, audit, and agreed upon procedures assignment is the result of collaboration between MCSD and the contractors and takes into
account operational or financial issues identified during MCSD's ongoing oversight and monitoring of the MCOs.

Inspector General

In 2003, the 78th Legislature created the Office of Inspector General to strengthen HHSC's capacity to combat fraud, waste, and abuse in publicly funded state-run Health and Human Services programs.

The IG's mission, as prescribed by statute, is the "prevention, detection, audit, inspection, review, and investigation of fraud, waste, and abuse in the provision and delivery of all health and human services in the state, including services through any state-administered health or human services program that is wholly or partly federally funded, and the enforcement of state law relating to the provision of these services."

One of the IG's primary tools for detecting, deterring, and preventing fraud, waste, and abuse is the performance of audits conducted under generally accepted government auditing standards issued by the Comptroller General of the United States. As part of this effort, the IG Audit Division plans and conducts regular audits of MCOs. The IG selects MCOs or MCO activities for audit based on the results of risk assessment, and also performs MCO audits at the request of HHS System management.

HHSC Internal Audit

Internal auditing is an independent appraisal activity established within HHSC to conduct audits of operations and procedures in accordance with the HHSC Internal Audit Charter approved by the Executive Commissioner. These audits consist of assessments of programs, processes, and systems under the operational responsibility of HHSC and those programs, processes, and systems either under the oversight of HHSC deputy executive commissioners or that involve two or more HHS agencies. HHSC Internal Audit may audit programs, processes, and systems at any HHS agency at
the request of executive management. HHSC Internal Audit coverage could include audits of MCOs.

**MCO Audit Requirements**

HHSC, through MCSD, the IG, and HHSC Internal Audit, is responsible for audits of MCOs and their subcontractors. The types of audits performed include risk assessment engagements, financial audits, compliance audits, and performance audits. Audits will be conducted with the scope and frequency necessary to ensure the effective management and control of the MCOs and will comply with all federal and state laws and applicable auditing standards.

**Roles and Responsibilities for MCO Audits**

The HHSC Executive Commissioner has established roles and responsibilities for the coordination of managed care audits, as follows:

**MCSD is responsible for:**

- Conducting MCO agreed upon procedures, audits, and risk assessment engagements through the use of contracted audit firms as part of the integrated business processes used to oversee and monitor MCOs.

- Providing final reports of agreed upon procedures, audits, and risk assessment engagements to IG, along with other information relevant to quantifying MCO performance under the contract with MCSD, including results of on-site monitoring visits, and any other relevant MCO-related performance information.

- Determining, based on coordination with IG about MCO audits, which audits to assign to contracted audit firms in order to eliminate duplication of audit effort and reduce the impact of potentially duplicative audits on the MCOs.

- Ensuring all MCOs receive some form of financial audit each year.
• Ensuring actions planned to address audit recommendations, including actions planned by MCSD or by an MCO, are implemented.

**IG is responsible for:**

• Planning and conducting regular audits of MCOs, in coordination with MCSD and HHSC Internal Audit.

• Coordinating with MCSD and HHSC Internal Audit in the development of audit plans to minimize duplication of activities relating to audits of MCOs.

• Considering input from MCSD and previous audits and review findings of MCOs by MCSD, HHSC’s contracted audit firms, and HHSC Internal Audit, before finalizing any IG audit plan and before finalizing the scope of an audit of an MCO.

• Developing and submitting to the HHSC Executive Commissioner for review, at least annually, a draft audit plan identifying its planned audits of MCOs.

• Consulting with MCSD management and subject matter experts, and obtaining specialized training when needed, to help ensure it has an understanding of managed care-related policies and contract requirements sufficient to knowledgeably and effectively perform audits of MCOs.

• Communicating preliminary results of MCO audits to MCSD for review and comment, and considering MCSD comments before finalizing audit report recommendations.

• Notwithstanding the statements above, IG may investigate, including by means of regular audits, allegations of suspected fraud, waste, or abuse by MCOs.
HHSC Internal Audit is responsible for:

- Auditing MCSD and IG, as part of its established audit authority and risk-based audit coverage, including auditing the effectiveness of coordination between MCSD and IG on the performance of MCO audits.

- Notifying and conferring with MCSD and IG before initiating an audit of an MCO contained in the annual audit plan approved by the Executive Commissioner.

**IG Audits of MCOs**

As noted above, the IG is responsible for conducting regular audits of MCOs in coordination with MCSD and HHSC Internal Audit. The following guidelines related to risk assessment, audit plans, audit scope, and audit findings, will apply to the IG when planning and performing MCO audits.

**Risk Assessment**

IG will consider input from MCSD in the development of risk assessment methodologies and will perform risk assessments as necessary to select MCOs or specific MCO activities for audit.

**Annual or Periodic Rolling Audit Plan**

IG will develop and present a draft annual audit plan, or more frequent draft rolling audit plans, to the HHSC Executive Commissioner to review after conferring with MCSD and HHSC Internal Audit.

MCSD will, after conferral with IG on potential IG MCO audits, consider the specific audit history of the MCOs under consideration, provide comment on IG’s proposed audit topics and, as appropriate, suggest alternative or additional audit topics.
MCSD, HHSC Internal Audit, and IG will work collaboratively to avoid any duplication of audit effort, including adjusting their respective audit plans when potential duplication of effort exists.

Audit Scope

The IG will develop the scope of each MCO audit, based on a risk assessment performed during the planning phase of the audit, and with consideration of input from MCSD regarding any weaknesses or vulnerabilities that may have been observed during MCSD's monitoring activities.

Findings

The IG will share its proposed MCO audit findings with MCSD before issuing a final audit report. MCSD will use the results of IG audits of MCOs to supplement its ongoing MCO monitoring and oversight activities. Within its contract monitoring and oversight authority MCSD will determine what actions to take in response to IG audit recommendations.

Appropriate steps may include the imposition of corrective action plans or other progressive performance remedies, including the assessment of liquidated damages, to address any MCO performance weaknesses or instances of noncompliance identified in an IG audit report. Any resulting monetary findings will be recovered by MCSD through the issuance of demand letters to the subject MCOs. MCSD will keep IG informed of actions planned, in progress, or completed to address IG audit recommendations.
Inquiries

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