John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

# State of Louisiana

Louisiana Department of Health
Office of Management and Finance

July 20, 2017

The Honorable J. Cameron Henry, Chairman
Louisiana State House of Representatives
House Appropriations Committee
P.O. Box 4486, Capitol Station
Baton Rouge, LA 70804

The Honorable Eric K. LaFleur, Chairman
Louisiana State Senate
Senate Finance Committee
P.O. Box 94183, Capitol Station
Baton Rouge, LA 70804

The Honorable Frank A. Hoffmann, Chairman
Louisiana State House of Representatives
House Health and Welfare Committee
P.O. Box 44486, Capitol Station
Baton Rouge, LA 70804

The Honorable Fred H. Mills, Chairman
Louisiana State Senate
Senate Health and Welfare Committee
P.O. Box 94183, Capitol Station
Baton Rouge, LA 70804

RE: Louisiana Department of Health – Audit Update Report

Dear Honorable Chairs:

The Louisiana Department of Health (LDH) is audited by a number of external oversight bodies including the Louisiana Legislative Auditor (LLA), the Office of Inspector General (OIG), the Centers for Medicare and Medicaid Services (CMS) and the Internal Revenue Service (IRS). The following report outlines ongoing and completed audits for SFY 2016 that have been, or are in the process of being conducted by the various auditing bodies.

The majority of LDH audits are done by the LLA, and they have several different units that audit the Department depending on what they are reviewing. They conduct performance audits, financial audits, and they have a special Medicaid unit that is a hybrid of the two. Typically, the process consists of three stages: planning, field work, and reporting or complete.

Planning status of an audit is indicated when the Department receives an email, announcement letter, or notification of some kind that an audit is to occur. Initial meetings are then conducted with the auditors to discuss the upcoming audit. Fieldwork status is indicated when the auditors are presently auditing such as conducting interviews, testing controls, gathering data, etc. Finally, reporting status indicates when the Department meets with the auditors to discuss any findings, review a draft report, or prepare a management response, leading to a final report.

Each year, LLA issues a comprehensive financial audit for the previous state fiscal year. In the most recent one issued on January 25, 2017, the LLA reported seven findings for SFY 2016, which is half the number of findings published in their SFY 2015 Financial Audit. At this time, all seven findings have already been corrected, and the actions are considered "complete" according to the LDH corrective action plan tracking.

It is also important to note the Department's successes from the FY15 Financial Audit, in which LDH corrected all of the findings within 2015 except one. The corrected findings were related to improper uncompensated care payments to two hospitals, inadequate controls to monitor timely filing and prompt payment of Medicaid claims, noncompliance with Medicaid regulations for external quality review report – LA Behavioral Health Partnership, inadequate controls over non-emergency medical transportation services, inadequate monitoring of required medical loss ratio reporting, inaccurate annual fiscal report, inadequate monitoring of vaccines, and lack of controls over federal cash management requirements. As evidenced by our improvement and swift action on all audit findings, LDH is proud of their progress and will continue to work cooperatively with all auditing partners to ensure proper action is taken to correct findings.

The previous and on-going financial and programmatic audits performed by the various external auditing bodies, such as, LLA, OIG, CMS and IRS are summarized below:

**Audits in Progress:**

1. LLA - Lab Claims
    - *Description:* The LLA audit objective is to identify payments to uncertified labs and violations of service limits.
    - *Status:* Reporting. Draft report received by LDH and meeting with LLA was held on June 27, 2017 and LDH and LLA continue to review report.
    - *Anticipated End Date:* July, 2017

2. LLA - Pharmacy – Prescription Limit Violations – State and Federal Limits
    - *Description:* The LLA audit objective is to identify claims paid that violated State and Federal prescription limits in the Medicaid Pharmacy Benefits program from Fiscal Years 2013 through 2016.
    - *Status:* Reporting. Validation of results is underway.
    - *Anticipated End Date:* July, 2017

3. LLA – Fee For Service/Managed Care Organization - Claims Paid by both FFS and MCO
    - *Description:* The LLA audit objective is to identify claims paid for by both the State (FFS) and the MCO plans that are potential duplicates.
    - *Status:* Fieldwork. Reporting.
    - *Anticipated End Date:* August, 2017

4. LLA – T1015 Encounter Claims
    - *Description:* The LLA audit objective is to determine if detail lines were included in claims data for "encounter" services
    - Status: Fieldwork.
    - *Anticipated End Date:* August, 2017

5. LLA - Nursing Homes
    - *Description:* The LLA audit objective is to review LDH oversight of nursing homes, including evaluation of processes to ensure accuracy of payments/rates and the existing rate setting process. LLA will review current audit processes and will

review the roles of Molina and LDH Program Integrity related to nursing home payments.

- *Status:* Fieldwork.
- *Anticipated End Date:* August, 2017

6. LLA - Office of Behavioral Health
   - *Description:* The audit objective is to determine if there is adequate statewide access to care for people with mental health or substance abuse issues.
   - *Status:* Draft report received by LDH and a meeting with LLA will be held on July 21, 2017 where LDH and LLA will continue to review report.
   - *Anticipated End Date:* September, 2017

7. LLA - Pharmacy – Duplicate Therapies
   - *Description:* The LLA audit objective is to identify duplicate therapy claims where the same or similar drugs were prescribed and filled for the same time period or overlapping time periods for the same Medicaid recipient.
   - *Status:* Fieldwork
   - *Anticipated End Date:* August/September, 2017

8. LLA – Fee for Service/Managed Care Organization - PMPM
   - *Description:* The LLA audit objective is to determine if PMPM payment information matches recipient managed care enrollment records.
   - *Status:* Fieldwork
   - *Anticipated End Date:* Late Fall, 2017

9. OIG - Provider Preventable Conditions
   - *Description:* The OIG audit objective is to determine if LDH has made improper payments to providers for preventable conditions (also known as hospital-acquired conditions).
   - *Status:* Fieldwork. Initial planning meetings with OIG have been completed. OIG is currently reviewing claims data.
   - *Anticipated End Date:* December, 2017

10. CMS - Review of Program Integrity
    - *Description:* This audit's objective is to review all of LDH's Program Integrity processes related to Medicaid managed care to assess compliance with regulations.
    - *Status:* Fieldwork. LDH has provided data to CMS for their review. In addition, CMS was on-site at LDH in March, 2017 to conduct interviews and obtain information.
    - *Anticipated End Date:* February, 2018

11. IRS - Financial Transactions Review – IT Security
    - *Description:* This review is required by the IRS for agencies that administer federal tax information (FTI). The IRS will be looking at the Department's IT security for financial transactions. This review also looks at the Office of Technology Services.

- *Status:* Fieldwork. IRS was on-site at OTS in January, 2017. This is an ongoing review.
- *Anticipated End Date:* March, 2018

12. LLA - Fee For Service/Managed Care Organization - Carve Outs
    - *Description:* The LLA audit objective is to determine whether the State (FFS) paid for claims that should have been paid for by the MCO.
    - *Status:* Fieldwork
    - *Anticipated End Date:* On Hold

**Completed Audits:**

1. OIG - Credible Fraud Referrals to the Medicaid Fraud Control Unit
    - *Description:* The OIG audit objective is to determine if LDH is properly referring suspected fraud cases to the Attorney General's Medicaid Fraud Control Unit, per the Affordable Care Act requirements.
    - *Status:* Complete; OIG has issued a report with no findings.
    - *Corrective Action:* None required as there were no audit findings.

2. LLA - Third-Party Liability Requirements (TPL)
    - *Description:* LLA found that LDH failed to maintain required processes that identify and recover TPL claims for medical services provided for a Medicaid-eligible recipient.
    - *Status:* Complete
    - *Corrective Action:* LDH has since established process to ensure federal Medicaid requirements for TPL have been met through an emergency contract with Healthcare Management Systems and subsequently a new TPL contract from July I, 2016 through June 30, 2019. This contractor will provide LDH with documentation quarterly to support estimated TPL receivable balances to ensure accurate financial reporting.

3. LLA - Quarterly Federal Expenditure Reporting
    - *Description:* LLA found that LDH failed to accurately complete the required quarterly reports of federal expenditures. This was a formatting error due to numbers being placed on the wrong line of an accounting sheet.
    - *Status:* Complete
    - *Corrective Action:* Effective November 21, 2016, the Fiscal Medicaid Reporting Unit began following new guidelines to coordinate with LDH Medicaid staff when new organizations are established to ensure that Fiscal staff reports Medicaid expenditures on the proper line. The new guidelines require Fiscal staff to discuss the purpose of new organizations requested by Medicaid and specifically what types of expenditures they will capture. Effective November 21, 2016, the Fiscal Medicaid Reporting Unit put into place an additional internal control to review and compare the balances between the previous and current quarters' 64.9R Report to ensure that beginning and cumulative totals are correct. The unit updated its CMS 64 reporting procedure,

Steps to Reporting Drug Rebates on the 64.9R, on December 1, 2016 to include such review of the balances. All formatting errors were corrected by December 1, 2016.

4. LLA - Women, Infants, and Children (WIC) Vendor Monitoring
    - *Description:* LLA found that OPH did not implement cost containment requirements and adequately monitor WIC program vendors.
    - *Status:* Complete
    - *Corrective Action:* The LDH and Office of Public Health (OPH) Bureau of Nutrition Services (BONS) worked closely with the United States Department of Agriculture (USDA) to address the outstanding issues with the Vendor Monitoring and Coast Containment Requirements. The BONS Director led efforts that resulted in the development of new and effective policies and procedures for all aspects of WIC Vendor Management including: development of new vendor agreements and a comprehensive vendor guide, an approved peer group and cost containment system, and appropriate identification and oversight of "Above 50% Vendors". These interim and permanent Vendor Monitoring policies and procedures not only required USDA approval, they also required changes in the Louisiana Administrative Code (LAC) to include a new selection criteria, sanction schedules and administrative review procedures. The USDA approved these interim and permanent Vendor Monitoring policies and procedures on September 28, 2016; and immediately following, the required LAC changes were initiated on October 1, 2016. The new and improved policies and procedures were put in place October 1, 2016; and, all interim policies and procedures continue to be reviewed, revised, and authorized jointly by a BONS and USDA working group until finalized and approved. On May 17, 2017, the USDA issued a letter to the LDH New Orleans Fiscal Office advising that its Food and Nutrition Service (FNS) division had reviewed LDH's efforts to correct this finding and found that LDH's actions were sufficient to resolve the problems. Therefore, the USDA advised that it had closed its file on this audit.

5. LLA - Waiver Service Providers:
    - *Description:* LLA found that LDH paid New Opportunities Waiver (NOW) and Community Choices Waiver (CCW) claims under Medicaid for waiver services that were not documented in accordance with established policies.
    - *Status:* Complete
    - *Corrective Action:* LDH program offices worked to clarify policy guidelines and document requirements related to changes in the client's schedule. The Department reviewed the transactions identified and determined the problem was related to improving documentation at the provider level, but appropriate levels of service were provided. Effective August 25, 2016, program offices revised Section 32.8 Record Keeping of the NOW Manual to clarify guidelines regarding deviations from a recipient's scheduled services. Program offices also provided training to NOW provider agencies across the state on documentation requirements. Training for all agencies was completed on September 28, 2016.

In addition, program offices issued a memorandum on January 9, 2017 to all CCW providers clarifying documentation requirements when deviating from a plan of care.

6. LLA - Reporting of Sub-recipients
   - *Description:* LLA found that the OPH Schedule of Expenditures of Federal Awards (SEFA) did not contain an accurate listing of amounts provided to sub-recipients, causing a net understatement of $19.4 million.
   - *Status:* Complete
   - *Corrective Action:* LDH worked closely with the Division of Administration (DOA) to develop and implement a new sub-recipient indicator field on SRM Purchase Orders and trained staff on new reporting requirements. The New Orleans Fiscal Office created a new Business Objects Report which sorts all subrecipient POs marked in SRM by organization and distributed the report to Organization Managers on February 2, 2017 with instructions to verify all POs listed are subrecipients, and if not, to line through them and to write in any subrecipients that are not listed and to update the SRM PO header subrecipient field as required. The Organization Managers certified the reports by signature and returned them to the Fiscal Office for verification that changes on the report had been made on the SRM PO header. This report will be distributed again in August 2017 prior to the SEFA cash basis extraction of Subrecipients to ensure that all PO data is correct. This procedure will continue to be followed in future fiscal years.

7. LLA - Sub-recipient Monitoring Requirements
   - *Description:* LLA found that OPH did not adequately monitor WIC program sub-recipients; possibly resulting in federal disallowed costs the state may have to return.
   - *Status:* Complete
   - *Corrective Action:* OPH drafted policies and procedures to address this issue, and monitors/audits cash payments to each sub-recipient. Policy 13.3 LDH Audit Requirements for Contracts was approved with an effective date of October 6, 2016. In addition to the updated policy, the New Orleans Fiscal Office periodically provides OPH program staff with a Business Objects Report of SFY cash basis payments made to each subrecipient as identified in the purchase order. If the subrecipient's total payments are $750,000 or more, it will be highlighted on the report for audit follow up by the program staff. On May 17, 2017, the USDA issued a letter to the LDH New Orleans Fiscal Office advising that its Food and Nutrition Service (FNS) division had reviewed LDH's efforts to correct the issues in this finding and found that LDH's actions were sufficient to resolve the problems. Therefore, the USDA advised that it had closed its file on this audit.

8. LLA - Internal Audit Function

- *Description:* LLA concluded that LDH does not have an adequate internal audit function to examine, evaluate, and report on its internal controls.
- *Status:* Complete
- *Corrective Action:* The Internal Audit Section has completed all corrective action as of June 30, 2017. Risk-based audits for all 7 LDH agencies have been completed. All completed Internal Audit reports contain management responses. The Internal Quality Review program issued a report on compliance with audit standards on 6/30/17, which indicated general conformance with the IIA Standards. The Internal Audit Section is operating at full capacity with no staff auditor positions open.

9. LLA - Medicaid Dental Services
   - *Description:* LLA reviewed the Medicaid Dental Services Program, primarily data driven, to look for improper payments for dental claims.
   - *Status:* Complete
   - *Corrective Action:* LDH Medicaid has completed its review of both the Dental Services Manual and the Managed Care North America (MCNA) Provider Handbook to ensure all policy is up to date and requirements are clearly explained. The MCNA Provider Handbook was updated on June 1, 2017. The provider Dental Services Manual was updated, circulated internally, and posted to www.lamedicaid.com on June 16, 2017. In addition, on May 22, 2017, LDH Medicaid implemented a tracking process to ensure that, going forward, timely updates are made to the manuals when program rules are changed. For fee-for-service payments, which include only Medicaid ICF/DD recipients, to correct a deficiency with MCNA, a systems change was completed as LIFT 1828 and put into production on May 19, 2017 to add Administrative Management Review and Clinical Review. LDH uses the 3rd and 4th characters of the ICN to include (MR) for Management Review and (CR) for Clinical Review. Molina accepts and maps to the data warehouse. The Systems Companion Guide was updated on April 5, 2017, with instructions on how to submit these codes in the MCNA Plan ICN value.

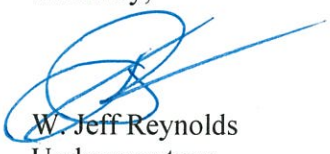
10. LLA - Multiple IDs
    - *Description:* LLA reviewed Medicaid payments for additional and/or outstanding duplicate payments made for Medicaid recipients with multiple IDs in managed Care and Legacy Fee for Service.
    - *Status:* Complete
    - *Corrective Action*: LDH Medicaid has established processes to minimize the amount of time that duplicate Medicaid IDs are active. In March 2017, Medicaid staff began reviewing daily a report of suspected duplicates to identify valid IDs and invalidate others to prevent or recoup duplicate payments. On March 3, 2017, LDH updated the Medicaid ID cross-reference file to identify and recoup duplicate premium payments made to Managed Care Organizations for recipients with multiple Medicaid IDS where the valid and invalid IDs were enrolled with different plans. The update provides Medicaid's enrollment broker with the data

needed to retroactively disenroll the invalid Medicaid IDs. Effective March 28, 2017, recoupments of duplicate premium payments made during the invalidated IDs' retroactive disenrollment period began and continue on a routine monthly basis.

11. LLA - Improper Payments – Home and Community Based Services
    - *Description:* The LLA audit objective is to identify improper payments to providers of home and community-based services. This is a follow-up review to a previous LLA performance audit (Improper Payments in HCBS Programs issued in September 2011).
    - *Status:* Complete.
    - *Corrective Action:* LDH will require its contractor (SRI) to implement a comprehensive edit that looks across all records by September 30, 2017. The LDH will compare the two systems Molina and SRI LAST to determine which is best to conduct an overlap analysis of HCBS services and institutional care. LDH will work to implement a mechanism for validating social security numbers through the Social Security Administration. However, there is a charge for this service and funding will need to be identified. LDH is phasing in EVV and will complete statewide implementation by January 1, 2018. LDH has developed a more systematic financial monitoring process and the implementation of EVV will facilitate the accuracy of billing and documentation. LDH will implement EVV for Support Coordination by December 31, 2018 which will provide the ability for LDH to verify each support coordinator's monitoring visit. Lastly, the LDH will work to implement, by June 30, 2018, an automated review to ensure a comprehensive check is performed against the state and federal exclusion lists as well as the DSW Registry.

Should you have any further questions or concerns please feel free to contact me at 225-342-6726 or via email at Jeff.Reynolds@la.gov.

Sincerely,



W. Jeff Reynolds
Undersecretary