



Department of Rehabilitation and Correction Medical Re-Pricing and Billing Audit

Audit Period: July 2017 through March 2018

Results Summary:

| Objective | Conclusion |
|-----------------------------------------------------|--------------------------|
| Monitoring and Managing Medical Re-Pricing Contract | Major Improvement Needed |

* Refer to Appendix A for classification of audit objective conclusions.



Executive Summary

Background

The Department of Rehabilitation and Correction's (DRC) Bureau of Medical Services is responsible for the planning, implementation, monitoring, and evaluation of comprehensive medical services for offenders. During state fiscal year 2018, DRC utilized a third-party administrator (TPA), CareWorks/Wellcomp Managed Care Services, to review, process and re-price billings from local hospitals and community healthcare providers serving inmates to approved Medicaid rates. Unless an inmate has private insurance, DRC is responsible for all outpatient inmate costs re-priced at the Medicaid approved rates. Inpatient care costs for care requiring admission into a hospital is only the responsibility of DRC if an inmate is not Medicaid eligible (i.e. no Social Security number, not a legal U.S. resident). Otherwise, inpatient claims are paid by the Ohio Department of Medicaid (ODM).

All outpatient medical procedures are processed through one of two contracts. The first contract is with the TPA to re-price outpatient billings to Medicaid approved rates. DRC pays the TPA a rate of \$9.75 per claim or adjusted claim. For state fiscal year 2018, the contract was amended to \$450,000. The other contract is with The Ohio State University (OSU Hospitals) to provide hospitalization and clinic services and professional staffing. DRC reimburses OSU Hospitals percentages of billed charges for services as outlined in the contract. DRC paid more than \$16.3 million for re-priced medical claims processed by the TPA from July 1, 2017 through March 31, 2018 and paid the TPA \$264,859 for processing and re-pricing 26,519 claims during the same time period. DRC pays OSU Hospitals \$4,668,000 quarterly to an account designed for facility services and \$340,120 quarterly to an account designed for professional services, and OSU Hospitals deducts funds from the accounts for services rendered.

During the audit, OIA identified opportunities for DRC to strengthen internal controls and improve business operations. OIA conforms with the *International Standards for the Professional Practice of Internal Auditing*. OIA would like to thank DRC staff and management for their cooperation and time in support of this audit.

This report is solely intended for the information and use of agency management and the State Audit Committee. It is not intended for anyone other than these specified parties.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to healthcare contract re-pricing processes. This work was completed March through June 2018. The scope of this audit included the following:

- OSU Medical Re-pricing and Billing Contract
- CareWorks (Wellcomp Managed Care Services) Medical Re-pricing and Billing Contract



- DRC monitoring and managing of these contracts
- Contract deliverables and the process in place for addressing deliverables that are not met
- Contractor Re-pricing process

The following summarizes the objectives of the review:

- **Assurance:** Evaluate the design and effectiveness of controls in place for monitoring and managing the medical re-pricing and billing contracts.
- **Consulting:** Review the contractor re-pricing and billing processes and provide recommendations to DRC for future contract considerations.

Detailed Observations and Recommendations

The Observations and Recommendations include only those risks which were deemed high or moderate. There were no low risk observations as part of this report.

Observation 1 – Lack of Contract Monitoring

Contract monitoring is part of the contract management process to ensure that a vendor adequately performs a contracted service and/or provides contracted goods. Establishing contract monitoring plans for each contract is a means for consistently holding contractors accountable to deliver goods and services in accordance with contract terms and to ensure quality standards are met. Contract monitoring is essential to ensuring services rendered are reasonable and necessary to contain costs for medical care.

Ohio Revised Code 341.192 (B) states if a physician employed by the Department of Rehabilitation and Correction (DRC) determines that a person confined in a state correctional institution requires necessary care that the physician cannot provide, the necessary care shall be provided by a medical provider. DRC shall pay a medical provider for necessary care in an amount not exceeding the authorized reimbursement rate for the same service established by the Department of Medicaid under the Medicaid program.

During state fiscal year 2018, DRC utilized a third-party administrator (TPA) to review, process and re-price billings from local hospitals and community healthcare providers serving inmates to approved Medicaid rates. Unless an inmate has private insurance, DRC is responsible for all outpatient inmate costs re-priced at the Medicaid approved rates. Inpatient care costs, care requiring admission into a hospital, is only the responsibility of DRC if an inmate is not Medicaid eligible (i.e. no Social Security number, not a legal U.S. resident). Otherwise, inpatient claims are paid by the Ohio Department of Medicaid (ODM). Bi-weekly, DRC received an itemized



listing of re-priced claims from the TPA through an OAKS interface and paid re-priced claims to healthcare providers. DRC reviewed and paid monthly invoices for the per claim processing fees assessed by the TPA.

From July 2017 through March 2018, the TPA processed more than 26,000 claims totaling over \$16.3 million in healthcare costs for DRC. DRC paid the TPA \$9.75 per claim, over \$260,000, in processing fees from July 2017 through March 2018. The over-arching goals of the service were to improve DRC's delivery of healthcare services to the inmate population through improved utilization management, coordination of care, and decreased procedure costs, and to promote healthcare delivery decisions based on cost, productivity and/or outcome data.

As part of the contract enacted June 30, 2016, the TPA agreed to provide reports for comparative analysis at a frequency as defined by DRC. DRC requested quarterly reports broken down by medical visit type and facility. In their response to the request for proposal, the TPA stated that DRC would be provided access to a real-time medical portal to view medical bills, supporting documentation, bill status, and run standard reports.

DRC has a process in place to notify contractors in the form of a cure letter when issues arise. The cure letter is a formal way to reiterate the terms and conditions and notify the contractor of any non-compliance.

However, DRC does not have formal contract monitoring procedures in place to outline the extent and frequency that agency staff should monitor contractor performance to ensure terms, objectives, and quality standards are met. Instead, DRC relies solely on the contractor to fully execute the contract as required. DRC's lack of contract monitoring resulted in the following issues:

- As of July 2017, DRC had not received any quarterly reports from the TPA, at which time DRC created and issued the first cure letter. DRC did not prepare any formal complaints until this cure letter one year after the start of the contract. The TPA provided reports after the first cure letter, but DRC determined the reports were unsatisfactory due to inaccurate content as well as the TPA not providing all the reports, so a second cure letter was sent in November 2017. DRC continued to receive reports from the TPA that contained inaccurate and unreliable information.
- Access to a real-time medical portal was never provided to anyone at DRC. Also, DRC did not receive a database file in usable format to detail vouchers processed and any errors.
- DRC fiscal received bi-weekly re-pricing reports from the TPA, but no medical personnel at DRC ever reviewed the information to identify and investigate any unusual or unreasonable claims or to ensure accuracy of payments and appropriateness of medical



services rendered. The reports provided to DRC did not contain CPT procedural codes necessary to verify re-priced billings did not exceed approved Medicaid rates.

OIA reviewed the monthly payments to the TPA for claims re-priced from July 2017 through March 2018 and noted the following:

- The March invoice was billed three times by the TPA, twice in the amount of \$6,298.50 (which was approved, processed and paid twice by DRC) and once in the amount of \$6,269.25 (which was pending payment as of June 1, 2018).
- The October invoice had supporting documentation of 4,557 claims processed, but the invoice billed DRC for 4,558 claims. DRC incorrectly approved the invoice and paid the TPA \$44,440.50 for 4,558 claims.
- There were 11 instances (eight on the February invoice and three on the March invoice) of claims processed with the inmate name listed as "Dummy Claimant"
 - DRC paid \$376.87 for medical claims which appeared as Dummy Claimant, but had an inmate identification number associated.
 - DRC paid a total of \$107.25 in processing fees to the TPA for Dummy Claimants.

OIA performed limited testing over a small sample of claims re-priced by the TPA during the period July 2017 through March 2018. Results included the following:

For two of 26 (8%) claims tested, DRC paid for medical treatments in which the dates of service were not supported by DRC inmate records. One claim for \$186.13 was paid for an inmate who was not incarcerated during the date of the medical treatment and one claim for \$175.73 was paid, but there is no record of the inmate being transported from the institution on the date of service listed on the claim to receive treatment.

- For one of 26 (4%) invoices, DRC was billed for inpatient claims. DRC paid \$20,028.89 for inpatient care. The claim was denied by ODM due to DRC not applying for Medicaid for the inmate.
- For one of 26 (4%) invoices, DRC paid \$12,655.02 for medical care provided for three days of service, which appears to be inpatient care, but was billed as outpatient care.

Failure to have formalized contract monitoring procedures increases the likelihood that contract terms are not met or that payments are for medical services that are not necessary, were not provided, or were improper on the date of service. Failure to review contract billings increases the likelihood improper payments and expenses are incurred. Additionally, failure to rectify contract issues in a timely manner may increase the severity of issues over time and result in misspent funds without timely detection.



Recommendation

For the errors identified, and for all invoices and services paid under the existing TPA contract, obtain additional information from the TPA (including CPT codes) to compare the information from the TPA to internal medical records to determine appropriateness of paid claims. At a minimum, all paid claims for inpatient services and high dollar claims should be reviewed to detect improper payments or services rendered. Consider contracting with a medical billing and/or CPT code consultant to perform such services. Request repayment from the TPA for re-pricing and billing errors and overpaid processing fees.

Develop and implement procedures for monitoring the medical re-pricing and billing contracts. Procedures should include specific instructions regarding the timing, frequency, and appropriate documentation of monitoring activities and format for documenting and communicating monitoring results. Create checklists of TPA deliverables to align monitoring activities with specific contract terms and to ensure all deliverables are complete, accurate, and timely. Perform risk-based (i.e. claims exceeding a certain dollar threshold) reviews of select processed claims to determine appropriateness and to detect payment errors. Develop and implement automated formulas for electronic re-pricing reports from the TPA to identify outliers or anomalies (i.e. claims costs more than pre-determined thresholds, CPT codes that are not for approved Medicaid services, etc.) to review and resolve before payment.

Ensure contract issues are handled timely to limit the impact and prevent additional contractor problems of non-compliance or non-performance. Additionally, develop and implement contingency plans in the event a contract must be revoked due to a breach of contract or performance issues. Contingency plans manage risks by establishing and formalizing the agency's response to interruptions in key business processes including contract interruptions.

Management Response

DRC requested this engagement to identify weaknesses regarding contract monitoring for the third-party administrator (TPA) who reviews, processes and re-prices billings from local hospitals and community healthcare providers serving DRC inmates to approved Medicaid rates.

1. DRC shall communicate with the TPA regarding the claims billed in error, the duplicate payment made to the TPA and the possibility for recovery of funds.
2. DRC shall establish contract monitoring procedures that will help to effectively monitor services rendered in accordance with the contract terms. The contract monitoring procedures shall include but not limited to testing claims, frequency, dollar threshold for claims to be reviewed by DRC before re-pricing, implement a checklist for monitoring the deliverables, compare claims billed to itemized reports from the TPA, and utilization review of all hospital admissions.



3. Effective 7-1-18, DRC has a new TPA who will review, process and re-price billings from local hospitals and community healthcare providers serving DRC inmates to approved Medicaid rates. DRC is currently working with the new TPA regarding reporting requirements for claims processed and invoices paid to the TPA.
4. DRC shall establish a contingency plan in the event a contract must be revoked due to a breach of contract or performance issues. DRC may include but not limited to communicating with Ohio State University, Ohio Department of Medicaid, an independent consultant or DRC may process the claims.

| Risk | Remediation Owner | Estimated Completion Date |
|------|---------------------------------------------------|---------------------------|
| High | Deputy Director of Healthcare & Fiscal Operations | September 30, 2018 |

Observation 2 – Confidential Personal Information is Not Secured

Ohio Revised Code (ORC) §1347.15 requires each agency to adopt rules regulating access to the confidential personal information (CPI) the agency keeps, whether electronically or on paper. Agencies should develop controls to address the protection of information deemed as personally identifiable from intentional or unintentional disclosure or misuse.

Per the Health and Human Services website, “the HIPAA Privacy Rule establishes national standards to protect individuals’ medical records and other personal health information and applies to health plans, health care clearinghouses, and those health care providers that conduct certain health care transactions electronically. The Rule requires appropriate safeguards to protect the privacy of personal health information, and sets limits and conditions on the uses and disclosures that may be made of such information without patient authorization. The Rule also gives patient’s rights over their health information, including rights to examine and obtain a copy of their health records, and to request corrections.”

During state fiscal year 2018, DRC utilized a third-party administrator (TPA) to review, process and re-price billings from local hospitals and community healthcare providers serving inmates to approved Medicaid rates. Bi-weekly, DRC received an itemized listing of re-priced claims from the TPA through an OAKS interface and paid re-priced claims to healthcare providers. However, the supporting documentation for the billed claims from the TPA included CPI such as patient (inmate) name, patient account number, date of service, and diagnosis codes and violated HIPAA. This information was uploaded into OAKS FIN as voucher payment support and can be reviewed and accessed by any state employee with access to view DRC vouchers.



Retaining sensitive information in shared locations (i.e. OAKS FIN) increases the risk that CPI is compromised or inappropriately accessed or used. Failure to properly secure CPI can result in loss, theft, or unauthorized disclosure. A single incident of compromised personal data can result in reputational damage to DRC and to the State of Ohio.

Recommendation

Immediately review all TPA voucher support in OAKS FIN and remove or redact any CPI from the documentation. Eliminate the practice of maintaining CPI as supporting documentation for medical vouchers to comply with ORC and HIPAA requirements. Work with future medical re-pricing vendors to ensure that voucher supporting documentation does not include any inmates' personally identifiable information or CPI.

Management Response

1. DRC has communicated with Department of Administrative Services, Office of Information Technology (DAS\OIT) that potential vulnerabilities exist with CPI utilized electronically on Ohio Shared Services (OSS) OAKS vouchers. DAS\OIT is coordinating efforts with OSS to remove the supporting documentation from the OSS OAKS vouchers that were paid directly to the TPA.
2. DRC shall revise policies to require that any financial transaction that contains CPI, the HIPAA Privacy Rule shall apply. Any document utilized for a financial transaction shall not reflect CPI. The CPI shall be redacted and or destroyed to protect individuals' medical records and other personal health information.
3. Effective 7-1-18, DRC has a new TPA who will review, process and re-price billings from local hospitals and community healthcare providers serving DRC inmates to approved Medicaid rates. DRC shall communicate the requirement that invoices shall not reflect the HIPAA Privacy Rule when submitting invoices for payment.
4. DRC shall continue to monitor TPA invoices to ensure compliance with HIPAA Privacy Rule.

| Risk | Remediation Owner | Estimated Completion Date |
|-----------------|-----------------------------------------------------------------------------------------|---------------------------|
| Moderate | Chief Fiscal Officers/DBA Chief Deputy Director of Healthcare & Fiscal Operations | September 30, 2018 |

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these

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observations reflect our continuing desire to assist your department in achieving improvements in internal controls, compliance, and operational efficiencies.

* Refer to Appendix A for classification of audit observations.



Appendix A – Classification of Conclusions and Observations

Classification of Audit Objective Conclusions

| Conclusion | Description of Factors |
|-----------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Well-Controlled | The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor. |
| Well-Controlled with Improvement Needed | The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives. |
| Improvement Needed | Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread. |
| Major Improvement Needed | Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses. |

Classification of Audit Observations

| Rating | Description of Factors | Reporting Level |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------|
| Low | Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity. | Agency Management; State Audit Committee (Not reported) |
| Moderate | Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention. | Agency Management and State Audit Committee |
| High | Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation. | Agency Management and State Audit Committee |