



Department of Medicaid Nursing Facility Cost Reports Audit

Audit Period: January through December 2017

Results Summary:

Objective	Conclusion*
Preliminary determinations of whether cost reports are complete and reasonable	Major Improvement Needed
Notifying Nursing Facilities of cost reports preliminarily determined incomplete and not reasonable, and the subsequent resolution	Major Improvement Needed

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

Report number: 2019-ODM-02

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Executive Summary

Background

The Ohio Department of Medicaid (ODM) works collaboratively with a network of various provider types to deliver health care services to more than three million residents of Ohio on a daily basis. Nursing facilities (NF) offer inpatient medical and/or rehabilitation services in a less intensive setting than a hospital. As a condition of participation in the Medicaid program, each nursing facility is required to file an annual cost report via the MITS (Medicaid Information Technology System) portal within ninety days of the calendar year end, unless a fourteen-day extension has been granted by ODM. During calendar year (CY) 2017, ODM paid approximately \$1.5 billion to 933 NFs.

Ohio Revised Code (ORC) 5165.108 requires ODM to conduct a desk review of each cost report and to make a preliminary determination of whether the reported costs are allowable costs. ORC 5165.01(B) defines “allowable costs” as a NF’s costs that ODM determines are reasonable. ODM must notify each NF of whether any of the reported costs are preliminarily determined not to be allowable, the Medicaid payment rate that results from the determination, and the reasons for the determination.

Scope and Objectives

OIA staff was engaged to perform an assurance audit related to the controls over the agency's NF cost report processes. This work was completed July through December 2018, and the audit period was CY 2017. The scope of this audit was NF cost report edits and analytics.

The following summarizes the objectives of the review:

- Evaluate the design and effectiveness of controls for preliminary determinations of whether cost reports are complete and reasonable.
- Evaluate the design and effectiveness of controls for notifying NFs of cost reports preliminarily determined incomplete and not reasonable, and the subsequent resolution.

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 – Validation of Cost Report Data

Ohio Revised Code (ORC) 5165.01(B) defines “allowable costs” as a Nursing Facility’s (NF) costs that ODM determines are reasonable. Ohio Administrative Code (OAC) 5160-3-01(A) states allowable costs has the same meaning as in ORC 5165.01 and are determined in accordance with Title 42 Code of Federal Regulations (CFR) Chapter IV and the Centers for Medicare and Medicaid (CMS) publication 15-1. CMS publication 15-1, “The Provider Reimbursement Manual”, provides guidelines and policies for determining reasonable cost of provider services. In accordance with ORC 5165.109(A), ODM may conduct an audit of any cost report filed. The decision whether to conduct an audit and the scope of the audit may be determined based on prior performance of a provider, risk analysis, or other evidence that gives ODM reason to believe that the provider has reported costs improperly. An audit is required whenever a provider does not pass the risk analysis tolerance factors.

Each NF is required to file an annual cost report with ODM via the MITS (Medicaid Information Technology System) portal. The MITS portal batches the cost reports into the Perseus system, which performs 261 reasonableness and completeness edit checks over each cost report to identify exceptions. If there are no exceptions identified, then the cost report automatically clears in Perseus. If any exceptions are identified based on the completeness and reasonableness checks in Perseus, the Provider Reimbursement Analyst (PRA) reviews and then resolves the exceptions. All cost reports must be cleared in Perseus by the end of May for the NF payment rates to be set by the beginning of July. NF payment rates are set again by the beginning of January. ODM paid approximately \$1.5 billion in Medicaid reimbursements to 933 NFs during calendar year 2017.

ODM has not established risk analysis tolerance factors, does not conduct provider risk analysis, and does not conduct any audits, in accordance with ORC 5165.109(A), to validate the cost report data and to verify that reported costs are reasonable and adhere to requirements in CMS 15-1.

Failure to conduct audits of cost reports increases the risk that NF providers report costs improperly without detection. Furthermore, improperly reported costs may increase the risk that the payment rates are incorrect and may result in over/under-reimbursements to NF providers.

Recommendation

Develop and implement policies and procedures to establish risk analysis tolerance factors and to conduct a risk analysis to conduct audits of cost reports in accordance with ORC 5165.109(A). Policies and procedures should include the following processes, but are not limited to:

- Perform data analytics over cost report data to identify outliers and above average reported costs;



- Utilize the results of the data analytics along with additional risk factors, such as prior performance, financial impact, and ODM concerns, to select a sample of NFs for audit;
- Conduct desk reviews and/or site visits of the selected NFs; and
- Compare cost report data to the NF’s internal records and ensure costs are in compliance with 42 CFR Chapter IV and CMS Publication 15-1 and are properly recorded on the cost report.

Management Response

ODM’s Bureau of Program Integrity (BPI) will develop and implement policies and procedures to establish risk analysis tolerance factors and conduct a risk analysis to conduct audits of cost reports in accordance with ORC 5165.109(A). In particular, our Long Term Care and State Agency Audits Section within BPI is responsible for this project. The policies and procedure will include, but will not be limited to, the four processes outlined above:

- Perform data analytics over cost report data to identify outliers and above average reported costs;
- Utilizing the results of the data analytics along with additional risk factors, such as prior performance, financial impact, and ODM concerns, to select a sample of NFs for audit;
- Conducting desk reviews and/or site visits of the selected NFs; and
- Compare cost report data to the NF’s internal records and ensure cost are in compliance with 42 CFR Chapter IV and CMS Publication 15-1 and are properly recorded on the cost report.

The above policies and procedures will be developed by March 2019 and implemented by December 2019.

Risk*	Remediation Owner	Estimated Completion Date
High	Chief of Bureau of Program Integrity	December 2019

Observation 2 – Outdated and Incomplete Edit Manual

Effective business processes include documented policies and procedures, defining roles, designating responsibilities, and detailing actions necessary to achieve management’s objectives. Periodically, management should review and update the policies and procedures to ensure they are current and relevant. Ohio Revised Code Section 1347.05(H) provides that



each agency collect, maintain, and use only confidential personal information (CPI) that is necessary and relevant to functions that the agency is required or authorized to perform.

Perseus has 261 edits to identify nursing facility (NF) cost report errors. The Long Term Care (LTC) Cost Report Edit Training manual contains Perseus edits and protocols for resolving edit exceptions, such as contacting the NF. However, the manual is outdated and incomplete. For instance:

- The manual contains documents from 2008 and 2013. In addition, the manual references the verification of the administrator license number with the Board of Examiners of Nursing Home Administrators (BENHA), which is now known as the Board of Executives of Long-Term Services and Supports (BELTSS).
- Eighty of the Perseus edits are defined as critical 'C' and must be reviewed by the Provider Reimbursement Analyst (PRA). However, there are instructions for only 38 (14.6%) edits in the manual. Of the 38 edits, 21 (55.3%) are for 'C' exceptions which leaves 59 (73.8%) 'C' exceptions with no documented instructions for the PRA to follow and resolve the critical exceptions.

From a sample of nine 2017 cost reports tested with Perseus edits, the edits for three (33%) cost reports were either not listed in the Perseus edits listing or in the LTC Cost Report Edit Training manual. Specifically:

- Edit 2000 (NF administrator coverage is missing) was not included in the Perseus edits listing, but was included in the manual;
- Edit 2841 (contractual allowance account cannot be 40 percent or more than the revenue account) was not included in the manual; and
- Edit 2849 (more than 1 bed size change reported for total facility licensed beds) was not included in the manual; however, the protocol for this edit was included with Edit 645 (more than 1 bed size change reported for Medicaid certified beds) in the manual.

Additionally, five edits in the manual contained supporting documentation that included CPI (social security numbers).

Protocol is not clearly defined for every edit and is left up to the individual judgment of the PRA which may result in variation in addressing edits or edits addressed inaccurately or incompletely.

Outdated and incomplete policies and procedures increases the risk that processes will not be consistently performed and appropriately resolved, especially in the event of unexpected staff turnover. Retaining CPI in shared documents, such as a training manual, increases the risk that this information is compromised or inappropriately accessed/used.

Recommendation



Update the existing LTC Cost Report Edit Training manual to address all edits and the protocol for resolution. The protocol should be sufficient that individuals not familiar with the process can assist and perform the process effectively and efficiently. Ensure supporting documentation included within the manual is current to the process and does not contain CPI.

In the future, periodically review the manual and update as necessary. Verify the manual's content with the staff creating and updating the Perseus edits to help ensure it is complete and accurate.

Management Response

The Financial Management, Planning and Rate Setting (FMPRSS) will review the LTC cost report edits currently in place with Perseus and we will update the LTC cost report edit manual with up-to-date screen shots to ensure they are current and contain no CPI. The FMPRSS will work with the Application Development team responsible for the Perseus edits to ensure all appropriate edits are properly captured in the LTC cost report edit manual. We will include all edits that could cause an exception to be created in Perseus (major exception) and may require the FMPRSS staff to work with the LTC provider (i.e. additional support documentation to be provided) in order to clear the exception noted in Perseus.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	FMPRSS Section Chief	March 2019

Observation 3 – Lack of Segregation of Duties

Adequate internal controls establish a segregation of duties to prevent financial misstatement and/or to prevent undetected errors. Within the nursing facility cost report review process, incompatible duties include, but are not limited to, resolving cost report exceptions and clearing cost reports. Procedures should be designed to prevent one employee from being assigned incompatible duties.

The Provider Reimbursement Analyst (PRA) reviews and then resolves assigned cost report exceptions by documenting notes on how the exceptions were resolved on the exception report. Then the supervisory role, Medicaid Health Systems Administrator (MHSA), reviews the exceptions and how they were resolved. Once the MHSA determines the exceptions have been appropriately resolved by the PRA, the MHSA clears the cost report by changing the status of the cost report in Perseus to 'cleared'. Due to the MHSA's extended absence during the calendar year 2017 cost report review period (April through May 2018), one of the PRAs was provided access to the supervisor role in Perseus to clear the cost reports, in addition to performing the PRA role of resolving the assigned cost report exceptions. Therefore, a



segregation of duties weakness exists in that the PRA was able to both resolve cost report exceptions and clear the cost reports. Perseus does not prevent cost reports from being cleared by the same individual that resolved the cost report exceptions.

From a sample of nine 2017 cost reports with Perseus edits requiring PRA involvement:

- Five (56%) cost reports were cleared in Perseus by the same PRA who resolved the cost report exceptions. In one instance, the cost report was cleared in Perseus by the same PRA that was assigned to the cost report; however, the resolution notes on the hard copy exception report indicate a different PRA resolved the exceptions.
- For one (11%) exception report, the PRA's notes on how the exception was resolved could not be located.

Perseus documents in its event log who is assigned to resolve the cost report, the date of assignment, who clears the cost report, and the cleared date; however, Perseus does not track the date the exceptions were resolved and who resolved the exceptions. Because of this, the system is not able to completely track and separate incompatible duties.

A lack of segregation between the duties of resolving cost report exceptions and clearing cost reports increases the risk of incorrectly resolved cost report exceptions or undetected errors. Lack of system controls to prevent individuals from performing incompatible duties increases the likelihood that cost reports are cleared without appropriate resolution of exceptions or by the same person who performed the resolution.

Recommendation

Implement policies and procedures to ensure incompatible duties are segregated such that no individual is responsible for both resolving cost report exceptions and clearing cost reports.

Consider designing and implementing a system control in Perseus to prevent a cost report from being cleared by the same individual who is also assigned to resolve the cost report exceptions.

Consider updating Perseus to include documentation of the date cost report exceptions are resolved, who resolved the exceptions and how the exceptions were resolved (consider utilizing the comments field in Perseus). Alternatively, initial and date the exception report to document who and when the exceptions were resolved or consider developing and implementing a routing slip for the PRA to complete during the exception resolution process to document how the exceptions were resolved and when the exceptions were resolved for the MHSA to review. Ensure the exception reports with the PRA's notes are maintained for future reference.

Management Response

The Financial Management, Planning and Rate Setting Section (FMPRSS) will review the job duties in the Perseus system regarding the "clearing" of LTC cost report exceptions. The



FMPRSS will work with the Application Development team to ensure that administrative edits are in place to ensure that the staff person who initially recommends the clearing of an exception is not permitted to approve the exception removal. There already exists supervisory approval of the exceptions in Perseus; however, we will work with the Application Development team to determine if it is feasible to create a new edit that permits the team lead to clear the recommended exception removal of lower level staff. If creating this edit is not feasible, then the FMPRSS will ensure that all exceptions are cleared by an appropriate supervisory level that did not initially recommend the removal of an exception.

The FMPRSS will also utilize the note taking field in Perseus to ensure that all exceptions are properly documented. Currently these were tracked outside of Perseus, but we will implement a new requirement that all notes for the clearing of exceptions are documented in Perseus.

Risk*	Remediation Owner	Estimated Completion Date
Moderate	FMPRSS Section Chief	March 2019

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

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



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