OFFICE OF INSPECTOR GENERAL

TEXAS HEALTH AND HUMAN SERVICES COMMISSION

AUDIT OF MEDICAID AND CHIP MCO SPECIAL INVESTIGATIVE UNITS

Texas Children's Health Plan, Inc. SIU

August 24, 2016
IG Report No. IG-16-016

HHSC IG
TEXAS HEALTH AND HUMAN SERVICES COMMISSION
INSPECTOR GENERAL

AUDIT OF MEDICAID AND CHIP MCO SPECIAL INVESTIGATIVE UNITS

Texas Children's Health Plan, Inc. SIU

WHY THE IG CONDUCTED THIS AUDIT

TCHP is one of 22 managed care organizations (MCOs) contracted to provide Medicaid and CHIP health care services in Texas. Approximately 84 percent of Medicaid and CHIP enrollees are members of an MCO. At nearly $27 billion a year, the Medicaid and CHIP programs constitute over 27 percent of the total Texas budget.

MCOs are required to establish a special investigative unit (SIU) to investigate fraudulent claims and other program waste and abuse by members and service providers. Effective SIUs are essential to support overall MCO cost containment efforts, and to ensure that state and federal funds spent on managed care are used appropriately.

The Texas Health and Human Services Commission is responsible for oversight of MCO contracts. The IG is responsible for approving SIU annual plans, and evaluating and sometimes investigating SIU referrals.

This is one of a series of performance audits to determine how effective selected MCO SIUs are at (a) preventing, detecting, and investigating fraud, waste, and abuse and (b) reporting reliable information on SIU activities, results, and recoveries.

WHAT THE IG RECOMMENDS

HHSC should require TCHP to implement corrective actions to strengthen TCHP's SIU fraud, waste, and abuse investigation and reporting activities.

View **IG-16-016**
For more information, contact:
IG.AuditDivision@hhsc.state.tx.us

WHAT THE IG FOUND

Texas Children's Health Plan, Inc. (TCHP) maintains the contractually required annual SIU fraud, waste, and abuse plan, and identified a limited number of cases and recovery amounts of potential fraud, waste, and abuse in 2014 and 2015.

TCHP received approximately $837.3 million in Medicaid and CHIP capitation and delivery supplemental payments in 2014, and $944.1 million in 2015, and paid approximately $1.6 billion in medical claims dollars over those two years. During this two-year period, TCHP's SIU identified 290 cases for investigation, recovered 0.001 percent of its total medical claims dollars, and referred 13 potential cases of fraud, waste, or abuse to IG.

Year	Medical Claims	Medical Claims $	# of SIU Investigations	SIU Recoveries	# of Referrals to IG
2014	6,071,431	$ 753,554,024	113	$ 619,180	8
2015	5,347,915	$ 844,050,839	177	$ 820,325	5
Total	11,419,346	$ 1,597,604,863	290	$ 1,439,505	13

Although TCHP's annual fraud, waste, and abuse plan outlined the essential activities needed for an effective SIU, TCHP's SIU investigation activities were limited. During full-scale investigations, TCHP did not always review enough samples to meet minimum requirements. Regulations require samples of at least 50 recipients for full-scale investigations. Sample sizes less than 50 were too narrowly focused to find all claims patterns and effectively capture potential cases of fraud, waste, and abuse.

TCHP's SIU also did not provide complete monthly reporting of all suspected cases of fraud, waste, and abuse. TCHP's SIU is required to report all required case information on the IG monthly open case list. When TCHP listed numerous cases as a single group without identifying specific information on the open case list, the IG Audit Division was unable to evaluate information regarding these individual investigations. Inaccurate or imprecise reporting by TCHP hinders IG efforts to monitor and measure SIU performance and to fight fraud, waste, and abuse.

Until TCHP increases the scope and effectiveness of its SIU investigation and reporting activities, HHSC does not have assurance that TCHP is maintaining an effective SIU that successfully guards against losses due to fraud, waste, and abuse.

The HHSC Medicaid/CHIP Division concurred with the IG Audit Division recommendations outlined in this report, and will facilitate TCHP's development of a corrective action plan designed to improve TCHP's SIU function.

The IG Audit Division will continue to publish reports during its ongoing audit of Medicaid and CHIP SIUs as it completes audit testing and validation for selected MCOs.

TABLE OF CONTENTS

INTRODUCTION

The Texas Health and Human Services Commission (HHSC) Inspector General (IG) Audit Division is conducting an audit of Medicaid and Children's Health Insurance Program (CHIP) special investigative units (SIUs). The objective of the audit is to evaluate the effectiveness of managed care organization (MCO) SIU performance in (a) preventing, detecting, and investigating fraud, waste, and abuse; and (b) reporting reliable information on SIU activities, results, and recoveries to HHSC. The audit includes state fiscal years 2014 and 2015, which covers the period from September 2013 through August 2015, and includes a review of relevant SIU activities through the end of fieldwork in May 2016.

This audit report is one of a series of reports on MCO SIUs. The first report was an informational report that provided background, context, and a compilation of information provided by the 22 Texas Medicaid and CHIP MCOs[1]. This audit report is focused on SIU activities at Texas Children's Health Plan, Inc. (TCHP). The IG Audit Division will continue to release audit reports for selected MCO SIUs as the audit proceeds.

Background

TCHP is a licensed Texas MCO contracted to provide Medicaid and CHIP services through its network of providers. TCHP coordinates health services for two managed care programs: the Children's Health Insurance Program (CHIP), and Medicaid's State of Texas Access Reform (STAR) program for members[2] in Harris and Jefferson Counties.

TCHP is one of 22 contracted MCOs responsible for administering, on behalf of the State of Texas, billions of dollars of Medicaid and CHIP health care services each year through its health plans. By contract, HHSC requires MCOs to establish and maintain an SIU to investigate potential fraud, waste, and abuse by members and health care service providers.[3] An MCO may contract with an outside organization to perform all or part of the activities associated with the SIU. TCHP utilizes internal staff along with contracted vendors to perform the SIU function.

---

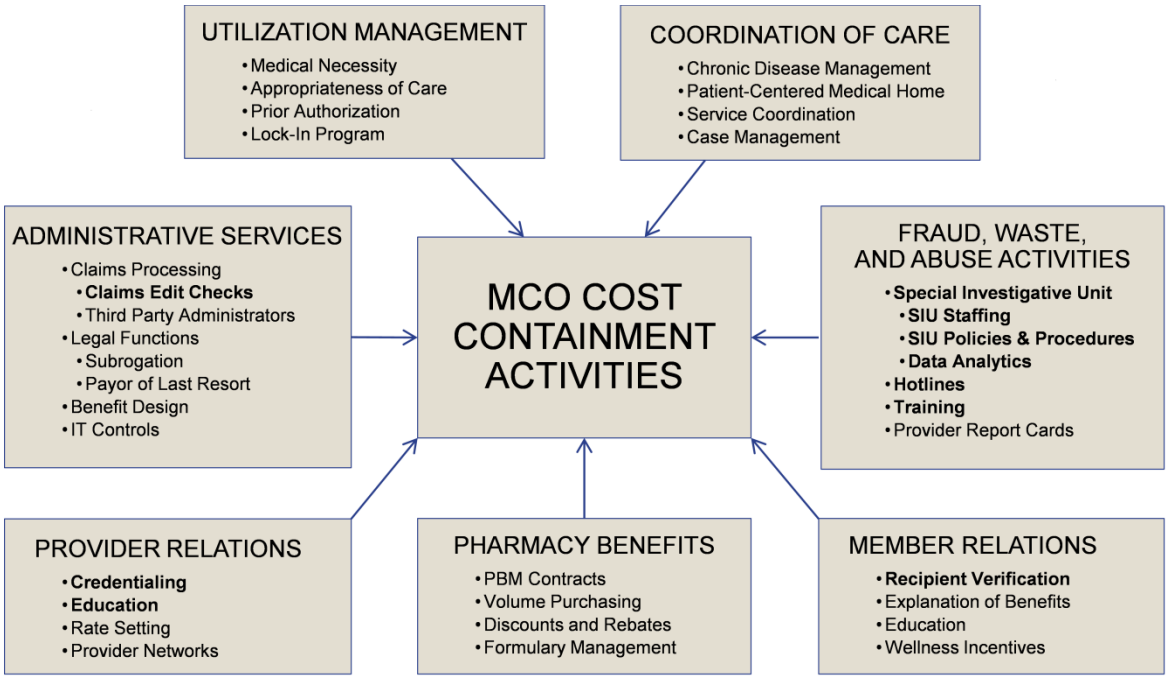
[1] An MCO is an organization that delivers and manages health care services under a risk-based arrangement. The MCO receives a monthly premium or capitation payment for each managed care member enrolled, based on a projection of what health care for the typical individual would cost. If members' health care costs more, the MCO may suffer losses. If members' health care costs less, the MCO may profit. This gives the MCO an incentive to control costs. In this report, health plans, dental maintenance organizations, and behavioral health organizations are collectively referred to as MCOs.

[2] MCOs refer to enrollees as "members." An "enrollee" is an individual who is eligible for Medicaid or CHIP services and is enrolled in an MCO either as a subscriber or a dependent.

[3] Uniform Managed Care Contract, Special Investigative Units, Section 8.1.19.1, Version 2.6 (September 1, 2013) through Version 2.16 (September 1, 2015).

SIUs support MCO efforts at cost containment through the prevention and detection of fraud, waste, and abuse. MCOs maintain many functions and activities outside of the SIU to control costs, and SIUs may conduct activities that relate to other business areas of the MCO besides Medicaid and CHIP. As a result, the functional and organizational structure of cost containment activities varies across MCOs. Figure 1 below provides a partial overview of the many types of activities MCOs employ to help reduce costs and impact fraud, waste, and abuse. This information is not meant to represent a complete set of activities, nor does it represent the structure of the business units at TCHP or any other specific MCO.

Figure 1. MCO Functions and Activities Related to Cost Containment



Source: IG Audit Division

The activities in bold in Figure 1 designate some of the areas of focus of this audit. This performance audit evaluated TCHP's SIU efforts related to:

- Prevention processes, such as the organizational code of ethics, credentialing and re-credentialing, exclusion verification, and fraud, waste, and abuse training.
- Detection activities, such as complex data analysis, periodic provider audits, intake of fraud referrals, and verification that recipients received billed services.
- Investigation efforts, such as conducting preliminary investigations and SIU case management.
- Disposition of fraud, waste, and abuse investigations, including referrals to the IG, corrective action plans, and monetary recovery.

- Reporting of SIU activities to IG, including a monthly report of ongoing investigations and annual reporting of SIU recoveries.

Texas Health and Human Services (HHS) agencies administer public health programs for the State of Texas. Within HHS, the HHSC Medicaid/CHIP Division oversees Medicaid and CHIP, which are jointly funded state-federal programs that provide medical coverage to eligible individuals. In 2013, there were approximately 4.3 million individuals enrolled in Medicaid or CHIP.[4]

The HHSC Medicaid/CHIP Division is responsible for overall management and monitoring of the contract with TCHP. The IG is responsible for approving TCHP's annual fraud, waste, and abuse plan,[5] and evaluating and sometimes investigating any fraud referrals it receives from TCHP. TCHP is required to refer suspected fraud, waste, and abuse to IG. When the IG determines that it will not pursue an SIU referral, TCHP is responsible for recovery of any Medicaid overpayments associated with the referral.

Medicaid serves primarily low-income families, children, related caretakers of dependent children, pregnant women, people age 65 and older, and adults and children with disabilities. Through the STAR program, Medicaid provides health services for pregnant women, newborns, and children. CHIP provides health coverage to low-income, uninsured children in families with incomes too high to qualify for Medicaid. In federal fiscal year 2013, Texas spent $26.8 billion on Medicaid and CHIP. This represented 27 percent of the entire 2013 Texas state budget.[6]

Medicaid and CHIP programs deliver health care services (including medical, dental, prescription drug, disability, behavioral health, and long-term support services) to eligible individuals.[7] CHIP provides services to individuals in Texas through a managed care model. Texas Medicaid provides services to some individuals through a traditional fee-for-service model[8], but most are enrolled through a managed care model[9]. For providing these services,

[4] This is the 2013 average monthly number of enrollees in Medicaid and CHIP.

[5] Texas Government Code, Subtitle I, Subchapter C, § 531.113 (September 1, 2003).

[6] Texas Medicaid and CHIP expenditures in 2013 are "all funds" (which include federal and state dollars), but excludes Medicaid funding for Disproportionate Share Hospital, Upper Payment Limit, Uncompensated Care, and Delivery System Reform Incentive Payment funds. Medicaid and CHIP amounts are for the federal fiscal year, and the state budget reflects the state fiscal year which begins one month prior to the federal fiscal year.

[7] TCHP's contract with HHSC does not include the provision of disability or long-term support services.

[8] Medicaid fee-for-service was the original service delivery model for Texas Medicaid introduced in 1967. In this model, enrolled Medicaid providers are reimbursed retrospectively for a Medicaid eligible health care service or services provided to a Medicaid eligible patient.

MCOs receive capitation payments, which are monthly prospective payments HHSC makes to MCOs for the provision of covered services. HHSC makes capitation payments to MCOs at fixed, per member, per month, rates based on members' associated risk groups.[10] These payments include federal and state funds.

In 2013, 100 percent of CHIP enrollees were in managed care. Collectively, approximately 84 percent of the combined Medicaid and CHIP populations (3.6 million individuals) were enrolled in managed care.

The IG Audit Division conducted this performance audit of TCHP in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Unless otherwise described, any year that is referenced is the state fiscal year, which covers the period from September 1 through August 31.

The IG Audit Division presented audit results, issues, and recommendations to the HHSC Medicaid/CHIP Division and to TCHP in a draft report dated August 18, 2016. Each was provided the opportunity to study and comment on the report. HHSC Medicaid/CHIP Division management responses to report recommendations are included in this report following each recommendation. TCHP comments are included in Appendix C. HHSC Medicaid/CHIP Division concurred with the IG Audit Division recommendations, and will facilitate TCHP's development of a corrective action plan designed to improve TCHP's SIU function.

[9] Medicaid managed care was first introduced in pilot programs in Texas in 1993. In this model, the state contracts with MCOs who contract with Medicaid providers for the delivery of health care services to Medicaid enrollees. MCOs must provide the same services under managed care as provided under the traditional fee-for-service model.

[10] A "risk group" is a group of MCO members that have a similar health status and are expected to have a similar Medicaid or CHIP spending pattern. HHSC applies an acuity risk adjustment to capitation rates to recognize the anticipated cost differential among multiple health plans in a service area due to the variable health status of their respective memberships. Final capitation payments are based on this acuity risk-adjusted premium for each combination of service area and risk group.

ISSUES AND RECOMMENDATIONS

TCHP maintains a fraud, waste, and abuse plan; the fundamental contractual and regulatory SIU requirement for MCOs. The plan describes ways TCHP can strengthen program integrity by monitoring service providers, auditing claims, identifying overpayments, and educating members and providers. Though the fraud, waste, and abuse plan is in place, TCHP needs to improve the function of its SIU to effectively implement the plan. During this audit, the IG Audit Division evaluated TCHP's SIU and identified issues related to:

- The amount of fraud, waste, and abuse recoveries.
- Sample sizes of preliminary investigations.
- Preparing complete monthly open case list reports for IG.

TCHP received approximately $837.3 million in Medicaid and CHIP capitation and delivery supplemental payments[11] in 2014, and $944.1 million in 2015. TCHP maintained an average monthly membership of 357,243 Medicaid and CHIP members during 2014, and 391,404 members during 2015. Table 1 shows capitation payments and delivery supplemental payments by program and year. Capitation payments include both medical and pharmacy payments.

Table 1: TCHP Capitation and Delivery Supplemental Payments by Program

Program	2014	2015	Total
Medicaid	$ 666,287,044	$ 818,051,578	$ 1,484,338,622
CHIP	$ 170,964,018	$ 126,080,209	$ 297,044,227
Total	$ 837,251,062	$ 944,131,787	$ 1,781,382,849

Source: HHSC 2014 Year-End 334-Day FSR and HHSC 2015 Year-End 90-Day FSR

[11] A "delivery supplemental payment" is a one-time payment per pregnancy to STAR, CHIP, and CHIP Perinatal MCOs for the delivery of live or still births.

Issue 1: SIU FRAUD, WASTE, AND ABUSE INVESTIGATION ACTIVITIES WERE LIMITED

As specified by contract and regulations, SIU fraud, waste, and abuse plans define the essential activities of the SIU. Performance of these activities is critical for successful detection, investigation, and reporting of fraud, waste, and abuse.

In 2014 and 2015, 290 Investigations Opened and $1.4 Million Recovered

Though TCHP is maintaining an SIU function, TCHP's SIU identified a limited number of cases[12] and recovery amounts of potential fraud, waste, or abuse in 2014 and 2015. Consequently, during the two-year period under review, TCHP:

- Opened a total of 290 fraud, waste, or abuse investigations[13].
- Recovered $1.4 million Medicaid overpayments that occurred due to health care provider fraud, waste, or abuse. This represents .001 percent of TCHP's total medical claims dollars.
- Referred 13 cases to the IG or to the Office of Attorney General's Medicaid Fraud Control Unit.

TCHP's SIU opened 290 investigations of suspected fraud, waste, or abuse during the audit period, and from September 2015 through May 2016, opened and investigated another 139 cases.

During the same two-year period, TCHP's health care providers submitted 11.4 million Medicaid and CHIP medical claims and were paid $1.6 billion medical claims dollars[14]. Table 2 shows the number and amount of medical claims by year along with the numbers of investigations and referrals, and amounts recovered.

[12] SIU investigations are also referred to as "cases".

[13] SIU investigations include both preliminary and full-scale investigations. A preliminary investigation may be closed without becoming a full-scale investigation.

[14] "Medical claims dollars" are the total amounts submitted to MCOs by health care providers as payment requests for medical services performed. MCOs pay these medical claims as expenses for delivering covered health care services to members. Medical claims dollars include claims with a date of service that falls within the referenced year, and may or may not have been paid during the referenced year. Medical claims dollars for 2014 and 2015 include both medical and pharmacy amounts, but do not include MCO administrative costs. The informational report previously published for this audit did not include pharmacy amounts in medical claims dollars.

Table 2: TCHP Medicaid Medical Claims and SIU Performance Results

Year	Medical Claims	Medical Claims $	# of SIU Investigations[15]	SIU Recoveries[16]	# of Referrals to IG
2014	6,071,431	$ 753,554,024	113	$ 619,180	8
2015	5,347,915	$ 844,050,839	177	$ 820,325	5
Total	11,419,346	$ 1,597,604,863	290	$ 1,439,505	13

Source: HHSC 2014 Year-End 334-Day FSR and HHSC 2015 Year-End 90-Day FSR

TCHP was timely in filing its annual fraud, waste, and abuse plans and maintained plan compliance with Texas Administrative Code requirements. TCHP also submitted monthly reports of ongoing investigations to the IG on a timely basis.

TCHP did not, however, always perform SIU activities that could have resulted in the detection of fraud, waste, and abuse. The IG Audit Division evaluated TCHP's detection and investigation processes and identified the following issue: TCHP's SIU used limited sample sizes to conduct some full-scale investigations.

Sample Sizes for Investigations Did Not Always Meet Minimum Requirements

During full-scale investigations, TCHP did not always review samples of at least 50 recipients.[17] During 2014 and 2015, TCHP investigated 290 cases in which it identified issues related to fraud, waste, or abuse. The IG Audit Division reviewed a sample of 50 cases from all cases investigated by TCHP's SIU during the same two-year period, 37 of which related to providers. Of the 37 provider-related cases, 3 cases were investigated with a sample of fewer than 50 recipients.

Texas Administrative Code requires MCOs to select and review a sample of at least 50 recipients related to suspected fraud, waste, and abuse. Texas Administrative Code states: "The sample must consist of a minimum of 50 recipients or 15% of a provider's claims related to the suspected waste, abuse, and fraud; provided, however, that if the MCO selects a sample based upon 15% of the claims, the sample must include claims relating to at least 50 recipients."[18] By limiting the sample size, TCHP's reviews were too narrowly focused to find all claims patterns and effectively capture potential cases of fraud, waste, and abuse.

[15] This includes the number of new investigations opened during the referenced year, regardless of whether they resulted in recoveries during the current or future years.

[16] This includes the amounts recovered during the referenced year. Investigations may have been opened during the current or prior years.

[17] A "recipient" is an MCO member that has received Medicaid or CHIP services.

[18] Texas Administrative Code, Title 1, Part 15, Chapter 353, Subchapter F, § 353.502(c)(2)(C) (March 1, 2012).

Although TCHP's SIU did investigate and recover overpayments, by not expanding its review of claims to at least 50 recipients, it is less likely to detect more indicators of fraud, waste, and abuse. TCHP's SIU may miss potential fraud, waste, and abuse cases, and may not identify and recover all potential overpayments. This may lead to smaller recoveries and fewer referrals to IG.

Recommendation 1

The HHSC Medicaid/CHIP Division, through its contract oversight responsibility, should require TCHP to put corrective actions in place to strengthen its fraud, waste, and abuse activities, including a requirement for TCHP to expand the number of recipients sampled in SIU investigations in accordance with Texas Administrative Code.

The HHSC Medicaid/CHIP Division should consider tailored contractual remedies to compel TCHP to effectively perform SIU activities.

HHSC Medicaid/CHIP Division Management Response

The Medicaid/CHIP Division is in agreement with the recommendation and will allow TCHP ten (10) days from receipt of the final audit report to submit a corrective action plan (CAP) that includes implementation of the following:

- *Expand the number of recipients reviewed in SIU investigations to provide a greater opportunity to successfully detect, investigate, refer, and recover dollars lost to fraud, waste, and abuse.*

The Medicaid/CHIP Division expects immediate actions to begin and would allow 90 days for all actions within the CAP to be fully implemented. Monthly updates detailing the status of each milestone will be expected from TCHP. Additionally, Medicaid/CHIP Division leadership will consider tailored contractual remedies to compel TCHP to effectively perform SIU activities.

Prior to approving actions within the CAP, the Medicaid/CHIP Division will request the IG Investigations Division perform a joint review of the CAP since it currently reviews MCO SIU plans related to fraud, waste, and abuse.

Responsible Individual: Director, Health Plan Management

Target Implementation Date: December 2016

Issue 2: MONTHLY REPORTING TO THE IG WAS NOT COMPLETE

As specified by contract and regulations, TCHP's fraud, waste, and abuse plans define the essential activities of the SIU. Performance of these activities is critical for successful detection, investigation, and reporting of fraud, waste, and abuse.

TCHP Did Not Provide Complete Reporting of All Suspected Cases of Fraud, Waste, and Abuse to the IG

TCHP's SIU did not report all required case information of suspected fraud, waste, and abuse on the IG monthly open case list. The IG Audit Division reviewed 50 cases and found 2 instances where TCHP reported numerous cases as a group without identifying required information regarding the individual cases. In one instance, TCHP reported 60 cases of suspected fraud, waste, or abuse without identifying specific information on the open case list. A second instance contained 71 cases of suspected fraud, waste, or abuse reported as a group. For these 131 cases, TCHP recovered a combined $97,968.57 of $311,958.90 in identified overpayments. Because TCHP did not report specific information about these 131 cases on the open case list, the IG Audit Division was unable to evaluate any individual case information regarding these investigations.

Texas Administrative Code mandates the assigned officer or director of TCHP to utilize "the HHSC-OIG fraud referral form…to report and refer all possible acts of waste, abuse or fraud to the HHSC-OIG within 30 working days of receiving the reports of possible acts of waste, abuse, or fraud from the SIU."[19]

Additionally, the HHSC Uniform Managed Care Manual, which is incorporated into the Uniform Managed Care Contract by reference, requires MCOs to "submit, using the prescribed OIG template, a monthly open cases list report."[20] The MCO Open Case List Report Template[21] has fields requiring specific information about each case being reported. The template has unique fields including:

- SIU Case Number
- Provider Name
- MCO Provider Number

[19] Texas Administrative Code, Title 1, Part 15, Chapter 353, Subchapter F, § 353.502(c)(5)(D) (March 1, 2012).

[20] HHSC Uniform Managed Care Manual, Chapter 5.0, Consolidated Deliverables Matrix, Deliverable 51, Version 2.1 (May 5, 2012) through Version 2.3 (January 5, 2015).

[21] HHSC Uniform Managed Care Manual, Chapter 5.5.1, MCO Open Case List Report Template, Version 2.1 (September 6, 2012).

- State Issued TPI Number
- Provider NPI
- Provider Tax ID

The Uniform Managed Care Manual also states that the fields in the template must not be changed or reformatted. Inaccurate or imprecise reporting by TCHP hinders IG efforts to monitor and measure SIU performance and to fight fraud, waste, and abuse.

Recommendation 2

The HHSC Medicaid/CHIP Division, through its contract oversight responsibility, should require TCHP to put corrective actions in place to strengthen its fraud, waste, and abuse activities, including submitting complete and accurate monthly open case lists to IG.

The HHSC Medicaid/CHIP Division should consider tailored contractual remedies to compel TCHP to effectively perform SIU activities.

HHSC Medicaid/CHIP Division Management Response

The Medicaid/CHIP Division is in agreement with the recommendation and will allow TCHP ten (10) days from receipt of the final audit report to submit a corrective action plan (CAP) that includes implementation of the following:

- *Submit complete and accurate information in the monthly report of open case lists to the IG.*

The Medicaid/CHIP Division expects immediate actions to begin and would allow 90 days for all actions within the CAP to be fully implemented. Monthly updates detailing the status of each milestone will be expected from TCHP. Additionally, Medicaid/CHIP Division leadership will consider tailored contractual remedies to compel TCHP to effectively perform SIU activities.

Prior to approving actions within the CAP, the Medicaid/CHIP Division will request the IG Investigations Division perform a joint review of the CAP since it currently reviews MCO SIU plans related to fraud, waste, and abuse.

Responsible Individual: Director, Health Plan Management

Target Implementation Date: December 2016

CONCLUSION

The IG Audit Division completed an audit of TCHP's SIU performance. The audit included an evaluation of policies and practices associated with preventing, detecting, investigating, and reporting fraud, waste, and abuse. The IG Audit Division conducted a site visit from May 23, 2016 through May 27, 2016 at a TCHP facility in Houston, Texas.

HHSC and TCHP share accountability for ensuring that state and federal dollars are used to deliver cost-effective health care services to eligible Medicaid enrollees. An effective SIU function is essential to ensure that:

- State and federal funds spent on managed care are used appropriately.
- Suspected fraud is detected, investigated, and when substantiated, reported to the IG or the Office of Attorney General's Medicaid Fraud Control Unit.
- Funds lost to fraud, waste, and abuse are recovered and reported to HHSC.
- Capitation rates established for Medicaid and CHIP accurately reflect the cost of providing health care services to eligible beneficiaries.

Based on the results of its audit of TCHP's SIU, the IG Audit Division concludes that:

- TCHP investigations resulted in limited recoveries.
- TCHP utilized limited sample sizes to conduct some full-scale investigations.
- TCHP did not submit complete information about all cases in its monthly open case list reports to the IG in accordance with requirements.

The IG Audit Division offered recommendations to the HHSC Medicaid/CHIP Division which, if implemented, will:

- Increase the scope of TCHP SIU investigations, providing greater opportunity to successfully detect, investigate, refer and recover fraud, waste, and abuse.
- Result in monthly reports to the IG that accurately reflect SIU fraud, waste, and abuse detection and investigation activities.

The IG Audit Division thanks management and staff at the HHSC Medicaid/CHIP Division and at TCHP for their cooperation and assistance during this audit.

Appendix A: OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

The objective of the audit was to evaluate the effectiveness of TCHP's SIU performance in (a) preventing, detecting, and investigating fraud, waste, and abuse and (b) reporting reliable information on SIU activities, results, and recoveries to HHSC.

Scope

The scope of the performance audit of the TCHP SIU included the period of September 2013 through August 2015 as well as review of relevant SIU activities through May 2016. The scope of this audit included review of:

- Contractor and subcontractor processes and activities that support SIU fraud, waste, and abuse plans.
- Policies and practices supporting the prevention, detection, investigation, and recovery activities of the SIU.
- Policies and practices supporting the reporting of SIU activities and results to HHSC.

Methodology

To accomplish its objective, the IG Audit Division collected information for this audit through discussions and interviews with responsible management at TCHP, and through request and review of the following information from TCHP:

- A description of the SIU function and organizational structure.
- A list of SIU employees, including their names, titles, and a description of their qualifications.
- Policies and practices associated with prevention and detection of fraud, waste, and abuse.
- Data related to SIU performance, including investigations, recoveries, and referrals in 2014 and 2015.
- A description and flowchart of the SIU investigation process.
- Data and information systems that support the SIU activities and data processing necessary to produce reports for submission to HHSC.
- A list and a description of each automated process or control in place to detect fraud, waste, and abuse.

The IG Audit Division issued an engagement letter to TCHP providing information about the upcoming SIU audit, and conducted fieldwork at TCHP's facility in Houston, Texas, from May 23, 2016 through May 27, 2016. While on-site, the IG Audit Division interviewed responsible SIU personnel, evaluated policies and practices relevant to the SIU function, and reviewed relevant SIU activities, including those related to prevention, detection, investigation, disposition, and reporting.

While at TCHP's facility, the IG Audit Division reviewed and copied documentation and records related to the SIU function. No original records were removed from TCHP's premises. Upon request, TCHP sent additional documents that were requested during the audit, but were not available during the on-site review, to the IG Audit Division offices for review.

Professional judgment was exercised in planning, executing, and reporting the results of this audit. The IG Audit Division used the following criteria to evaluate the information provided:

- TCHP's Fraud, Waste, and Abuse Compliance Plan
- TCHP SIU Policies and Procedures
- Uniform Managed Care Manual
- Uniform Managed Care Contract Terms and Conditions
- Texas Administrative Code
- Texas Government Code
- Code of Federal Regulations

The IG Audit Division reviewed the SIU data and reports produced by the claims management system at TCHP. The IG Audit Division determined the data was sufficiently reliable for the purposes of the audit. In order to make this determination, the IG Audit Division:

- Interviewed MCO officials knowledgeable about the data.
- Validated that the queries and parameters used to produce SIU reports were appropriately modified.
- Reviewed the access management process for appropriateness.
- Reconciled potential fraud, waste, and abuse claims reports to source documents.

The IG Audit Division conducted the audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the issues and conclusions based on audit objectives. The IG Audit Division believes that the evidence obtained provides a reasonable basis for the issues and conclusions based on audit objectives.

Appendix B: SAMPLING METHODOLOGY

The IG Audit Division examined SIU activities for the period from September 2013 through August 2015. After an initial assessment of risk across SIU activities and contractor performance outcomes, the IG Audit Division performed testing from the population of TCHP employees, subcontractors, and providers.

TCHP Employee and Subcontractor Training

The IG Audit Division conducted sample testing in order to assess whether TCHP employees had attended annual ethics and fraud, waste, and abuse trainings required by Texas Administrative Code. The IG Audit Division selected a simple random sample[22] using a random number generator. The sample size included 50 employees from the total population of 454 TCHP staff who were employed at any time during the two-year audit period. Of these 454 employees, 410 were still active employees at the beginning of fieldwork. TCHP utilized 14 subcontractors during the audit period, and the IG Audit Division selected 100 percent of subcontractors to review whether fraud, waste, and abuse training was provided.

The IG Audit Division evaluated whether TCHP employees received required ethics and annual fraud, waste, and abuse trainings by comparing whether the employees in the sample had signed a fraud, waste, and abuse training sign-in sheet to indicate attendance. For subcontractors, the IG Audit Division evaluated documentation submitted by TCHP related to fraud, waste, and abuse training.

TCHP Provider Credentialing

The IG Audit Division conducted sample testing to assess whether the provider credentialing process was conducted on a timely basis. The IG Audit Division selected a simple random sample using a random number generator. The sample size included 50 providers from the total population of 2,898 unique STAR and CHIP providers enrolled with TCHP during the two-year audit period.

The IG Audit Division assessed whether the provider credentialing process was conducted on a timely basis by reviewing sampled provider's credentialing files to verify that the credentialing process was completed prior to their addition to the TCHP network, and that re-credentialing was completed at least once every three years thereafter.

[22] Random sampling is a method by which every element in the population has an equal chance of being selected.

The IG Audit Division requested schedules of the total population for the audit period and selected a judgmental sample[23] of 20 percent of the population with a minimum sample size of 25 and a maximum of 50. Where the total population was 30 or less, the IG Audit Division tested 100 percent of the population. This methodology provided sufficient and appropriate evidence to make determinations regarding the test objectives.

TCHP SIU Investigations

The IG Audit Division conducted sample testing to assess whether SIU investigations were conducted according to statutory requirements and the fraud, waste, and abuse plan. During the audit period and through May 2016, TCHP's SIU processed 486 cases of suspected fraud, waste, and abuse. Of the 486 cases, 451 were investigated and closed, and 35 cases remained open.

The IG Audit Division selected a judgmental sample of 50 cases under investigation during the audit period. This excluded cases that were opened prior to September 1, 2013 as TCHP's SIU had completed investigations for all of these cases and was in the process of recovering these overpayments.

This methodology provided sufficient and appropriate evidence to make determinations regarding the test objectives. The IG Audit Division assessed whether investigations were conducted on a timely basis by determining whether investigations met the time frames required by Texas Administrative Code. The IG Audit Division also assessed whether appropriate records were requested and reviewed, and where applicable, whether overpayments were recovered.

[23] Judgmental sampling is a non-probability sampling method where the auditor selects the sample based on certain characteristics, such as dollar amount, timeframe, or type of transaction.

Appendix C: TEXAS CHILDREN'S HEALTH PLAN COMMENTS

TexasChildrensHealthPlan.org

Controls and Compliance Department
P.O. Box 301011
Houston, TX 77230-1011

August 16, 2016

Steve Sizemore, CIA, CISA, CGAP
Audit Director
Texas Health and Human Services Commission
Office of Inspector General
Mail Code 1326
P. O. Box 85200
Austin, Texas 78708-5200

Re: Audit of Texas Children's Health Plan, Inc. SIU

Dear Mr. Sizemore:

Thank you for the opportunity to provide comments on the Inspector General's recent audit report of the Texas Children's Health Plan's Special Investigative Unit. TCHP's SIU has taken note of the OIG's comments and is committed to complying with all Medicaid regulations in order to appropriately identify instances of fraud, waste, and abuse.

IG Audit Conclusion: SIU Fraud, Waste, and Abuse Activities Were Limited.

TCHP Comment: TCHP's SIU wishes to call attention to its success in fraud prevention and recovery efforts not reflected in the OIG's report. As a result of its investigative work, the SIU has been able to implement clinical and coding edits into its claims system that reduce the risk of inappropriate billings being paid in the first place. The savings generated from these cost-avoidance efforts may translate into significantly higher dollars than those from retrospective recoupments.

The SIU assists in additional recoupment efforts through its monitoring of third-party vendors retained to supplement the SIU's prevention and detection of fraudulent and abusive billing. Last year, those vendors performed hospital bill audits, DRG analysis, credit balance reviews, coverage of benefits, and subrogation that recovered $6.1 million dollars

State regulations require the SIU to submit all cases with potential recoupments of $100,000 or greater to the IG. Should the IG decide to pursue an investigation, the SIU loses the opportunity to collect on the largest of its recoupment opportunities. Respectfully, the SIU also believes it lost the opportunity to recover some substantial overpayments in 2014 after the previous IG accepted several referrals with potential recoupments exceeding $100,000 and then, two years later, referred the cases back to the SIU—at which point the providers' contracts had been terminated and the opportunity for recoupment had been diminished.

TCHP also wishes to address a sub-finding of the first issue—TCHP utilized limited sample sizes to conduct some full-scale investigations. The report notes that in three of the 50 cases sampled by the OIG, the SIU selected a sample size of fewer than 50 recipients. The SIU understands the need to comply with minimum sample sizes mandated by State regulations. However, in the SIU's judgment, the three "small" samples found by the OIG differed from how they are characterized in the report

- In one case, the SIU did not select a sample because the allegation was determined to be unsubstantiated and the overpayment to be an explained misunderstanding.
- A second and third case were not fraud referrals but were based solely upon internal analytical reviews for possible misuse of particular CPT codes. Due to limited magnitude and risk, it was judgmentally determined to select smaller sample sizes in order to more efficiently utilize SIU resources.

IG Audit Conclusion: TCHP did not submit complete information about all cases in its monthly Open Case List reports to IG in accordance with requirements.

TCHP Comment: The OIG report also states that TCHP did not submit complete information about all cases in its monthly Open Case List reports. The two instances that the SIU reported as a group were not, in fact, fraud referrals. They were related to an analytical review project and did not involve samples of medical records since the analysis revealed that a clinical review was unnecessary. The project was reported to the IG in summary form for the convenience of the IG. TCHP may have erred in, for the purposes of transparency, including the cases in the Open Case List at all. The SIU believes the Uniform Managed Care Manual would benefit from some clarification of the audit types that should be included in the Open Case List, along with some corresponding written instructions.

The Texas Children's Health Plan's SIU welcomes the dialogue the OIG has initiated with it and other MCOs. We look forward to working more closely with the OIG in the coming years.

Respectfully,

Texas Children's Health Plan

Appendix D: REPORT TEAM AND REPORT DISTRIBUTION

Report Team

The IG staff members who contributed to this audit report include:

- Steve Sizemore, CIA, CISA, CGAP, Audit Director
- Hilary Evbayiro, CPA, Audit Manager
- Jeff Jones, CPA, CIGA, Audit Project Manager
- Babatunde Sobanjo, PhD, Auditor
- Netza Gonzalez, MBA, MSM, CISA, CFE, IT Audit Project Manager
- Jude Ugwu, MBA, CFE, CRMA, Auditor
- JoNell Abrams, Auditor
- Angelica Villafuerte, Auditor
- Sarah Warfel, IT Auditor
- Lorraine Chavana, Quality Assurance Reviewer
- Collette Antoine, MBA, MPH, Senior Audit Operations Analyst

Report Distribution

Health and Human Services Commission

- Charles Smith, Executive Commissioner
- Cecile Erwin Young, Chief Deputy Executive Commissioner
- Kara Crawford, Chief of Staff
- Gary Jessee, Associate Commissioner, Medicaid/CHIP Division
- Tony Owens, Deputy Director, Medicaid/CHIP Division Contract and Performance Management
- Karin Hill, Director of Internal Audit

Texas Children's Health Plan, Inc.

- Christopher M. Born, President
- Sharon McWhorter, Director, Controls and Compliance

Appendix E: IG MISSION AND CONTACT INFORMATION

Inspector General Mission

The mission of the IG is to prevent, detect, and deter fraud, waste, and abuse through the audit, investigation, and inspection of federal and state taxpayer dollars used in the provision and delivery of health and human services in Texas. The senior leadership guiding the fulfillment of IG's mission and statutory responsibility includes:

- Stuart W. Bowen, Jr. — Inspector General
- Sylvia Hernandez Kauffman — Principal Deputy IG
- Christine Maldonado — Chief of Staff and Deputy IG for Operations
- Frank Bryan — Counselor to the IG
- Quinton Arnold — Senior Advisor and Deputy IG for Inspections and Evaluations
- David Griffith — Deputy IG for Audit
- James Crowley — Deputy IG for Investigations
- Cynthia Reyna — Chief Counsel

To Obtain Copies of IG Reports

- IG website: https://oig.hhsc.texas.gov

To Report Fraud, Waste, and Abuse in Texas HHS Programs

- Online: https://oig.hhsc.texas.gov/report-fraud
- Phone: 1-800-436-6184

To Contact the Inspector General

- Email: OIGCommunications@hhsc.state.tx.us
- Mail: Texas Health and Human Services Commission
  Inspector General
  P.O. Box 85200
  Austin, Texas 78708-5200
- Phone: 512-491-2000