

October 10, 2013

Honorable Justin Burr
NC House of Representatives
300 N. Salisbury Street, Room 307A
Raleigh, NC 27603-5925

Dear Representative Burr,

Two recent stories published on the North Carolina Health News website make misleading statements about the Medicaid audit report issued by the Office of the State Auditor in January 2013. Our office wanted to share our concerns about these reports with you since they were discussed during your meeting of the Joint Legislative Oversight Committee for Health and Human Services on October 8, 2013.

The reports include erroneous information from the author, as well as misleading statements from a draft version of the Department of Health and Human Services (DHHS) response to the Medicaid audit. We stand by the accuracy of our January Medicaid report, and want to provide you factual information about the audit and related matters. Our concerns include:

1. North Carolina Health News incorrectly asserts that the scope of the audit was widened in January, just weeks before its release.

Specifically, the North Carolina Health News report of October 9, 2013, titled, "Audit Edits Eliminated Defense of Medicaid Program," says,

"But when Pat McCrory became governor and Aldona Wos, his appointee, took over as head of DHHS, the scope of the audit widened."

The audit scope was established by the Legislature in June 2012 in section 10.9A(a) of the 2012-2013 North Carolina State Budget, which states:

"The State Auditor shall conduct a performance audit of the North Carolina Medicaid Program and the Division of Medical Assistance operated within the Department of Health and Human Services. The audit shall examine the program's effectiveness; results of the program; the utilization of outside vendor contracts, including the number, cost, and duration of such contracts; fiscal controls and Medicaid forecasting; and compliance with requirements of the Centers for Medicare and Medicaid Services and the requirements of State law."

Based on the language set out in the state budget law, OSA established the audit objectives at the beginning of the audit, and the objectives remained unchanged throughout the entire audit process. The audit objectives were:

- To determine if the division’s administrative functions, including assigned internal and external resources, complied with the Medicaid State Plan and federal requirements, and provided for an efficient use of state and federal funds;
- To evaluate the division’s processes for preparing annual budgets and monitoring expenditures to determine if the Division of Medical Assistance (DMA) accurately predicted and assessed program costs;
- To review the process by which the division made State Plan amendments (SPAs) and determined whether they complied with federal requirements; and
- To assess the timeliness, completeness, and flow of budget and expenditure information from the division to other stakeholders, including the Governor, the General Assembly and the Secretary of the Department of Health and Human Services.

All of the findings in the final report issued on January 31, 2013, fell within one of these four major areas.

Also, the article attempted to persuade readers that the audit scope was expanded by quoting an email from a former DHHS employee to an OSA auditor. The shorter, published version of the email has been edited and gives the impression that the former DHHS employee was confused by unexpectedly receiving additional findings.

Under the subheading “Widened Scope,” the article states that the Auditor’s Office had four findings as of December 6, 2012. The article also states that the number of findings had increased to eight by January 10, 2013, after new staff arrived at DHHS. The article quotes an email as evidence that the additional findings were unexpected and confusing to DHHS staff.

There are significant differences between the original email and the citation contained in the article. The items bolded were eliminated from or misrepresented in the citation in the North Carolina Health News’ article.

“I don’t recall the discussion about the additional **finding** during our meeting in December? ***I am assuming this is the additional finding you emailed us this week that would be coming – the forecasting.*** Am I off base – I want to make sure we get you everything. ***There will not be a problem meeting the timeline for responding.***”

Additionally, the email was about one additional finding – not findings as reported in the article. Also, as is stated in the original email, the former DHHS employee was expecting the finding.

The Office of the State Auditor did not expand or change the scope of the audit and performed the performance audit as required by the bill signed into law in July 2012.

2. North Carolina Health News misstates that OSA alleges mismanagement and faults Community Care of North Carolina (CCNC) for not achieving the savings established in the state budget.

The article from October 9, 2013, states,

“Throughout the previous fall, DHHS officials had moved to defend CCNC from Wood’s **allegations of mismanagement** during fiscal year 2012, which ended on June 30, 2012.” (emphasis added)

OSA did not allege mismanagement by CCNC. Our audit only reported that the budgeted savings were not achieved.

The article also takes issue with the OSA recommendation that the state should engage medical researchers to perform a scientifically valid study based on actual data to determine whether the CCNC model saves money and improves health outcomes. The article characterizes the recommendation as an attack against which DHHS officials had to defend CCNC.

The recommendation is a commonsense suggestion to use **actual, specific** data collected during the operation of CCNC to determine whether the model saves money and improves health outcomes instead of continuing to use actuarial data to estimate the results.

3. North Carolina Health News cites misleading information from the draft version of the DHHS response that was intended to deemphasize the agency’s comparatively high administrative cost.

Our audit makes a clear comparison by reporting each state’s Medicaid administrative costs, not the administrative costs incurred by a state’s Medicaid managed care organizations. In contrast, the draft DHHS response proposes to cloud the issue by including **estimated** administrative costs of each state’s Medicaid contractors.

Our report used reliable Medicaid administrative cost data as reported to the federal Center for Medicare and Medicaid Services (CMS). This information is subject to federal audits and significant penalties can be incurred if the information is found to be inaccurate.

In contrast, the DHHS draft response reported on October 8, 2013, in an article titled, “McCroy Administration Officials Suppressed Insight Into Medicaid,” does not use data reported to the federal government that would be subject to audit and penalties for inaccuracies. Instead, the draft response included DHHS staff calculations based on the medical loss ratio from each state and unaudited data from two separate reports issued by two separate entities. Neither the calculations nor the data has been audited to determine the reliability of the information presented.

4. North Carolina Health News makes several references to the draft version of the DHHS response that misleadingly explains that cost overruns in Medicaid were “largely due to factors outside the Department’s control.”

While consumption of health care and other factors cannot be fully controlled, our report documents a number of factors within the Department's control that contributed to poor estimates and cost overruns. The factors within the Department's control included, but were not limited to:

- The Department failing to budget or forecast for known Medicaid expenditures in the budget, including installment repayments to CMS.
- The Department failing to track current year contract expenditures against current year certified budget amounts to manage contract expenditures and stay within budget.
- The Department insufficiently monitoring and controlling more than \$500 million of administrative spending incurred by divisions other than the Division of Medical Assistance.
- The Department failing to comply with a legislative mandate to eliminate inflationary increases for nursing facilities.
- The Department not, and having no intention of, retroactively implementing State Plan amendments to achieve Medicaid cost savings incorporated in the budget.

5. North Carolina Health News erroneously reported that audit findings may have been the result of the audit staff not understanding the “complexities of the Medicaid program.”

The article of October 9, 2013, states,

“DHHS staff had been working with Wood’s team on the audit for months, providing documents and negotiating responses to findings through November and December. Many of the replies provided by **DHHS attempted to explain the complexities of the Medicaid program** and refuted auditors’ accusations of mismanagement.” (emphasis added)

To the contrary, the audit team consisted of external Medicaid experts who fully understand the complexities of the Medicaid program, as well as OSA auditors with the technical knowledge, skills, and experience necessary to conduct the audit. For example, the audit staff included, but was not limited to:

- A former Center for Medicare and Medicaid Services (CMS) Atlanta Region Branch Manager of Financial and Programmatic Operations of Medicaid with more than 31 years of audit, management, analysis and consulting experience in the health care industry and government sector.
- An auditor with more than 30 years of experience of senior service to CMS including auditing state Medicaid programs for regulatory compliance, reporting, and forecasting.

- An auditor with nearly 20 years healthcare experience, including eight years with another state's Medicaid program, first as the Chief of Accounting & Budget and then as the Chief Financial Officer.
- An auditor with 17 years of healthcare auditing and consulting experience, including managing, reviewing and performing cost report and program integrity audits of all types of Medicaid providers.

The Office of the State Auditor fully understands and appreciates the challenges of state Medicaid programs and the shortcomings in North Carolina. We hope the information in this letter clarifies any misleading information.

If you would like to read our report in its entirety, please visit our website at <http://www.ncauditor.net/EPSTWeb/Reports/Performance/PER-2013-7291.pdf>.

Please contact me at 919-807-7628 if you would like additional information or have questions for us. We are always pleased to discuss our work with you.

Sincerely,

Beth A. Wood, CPA
North Carolina State Auditor