

**Department of Social Services
Government Operations and Audit Committee
Corrective action plan for FY18 Single Audit finding
May 23, 2019**

Department of Social Services (DSS) had an audit finding as a result of the FY2018 Single Audit. The finding is inadequate controls over the calculation of Diagnosis Related Group (DRG) reimbursement rates and the finding type is a Significant Deficiency. DRG is the methodology used to reimburse most hospitals for inpatient services. The effect of the audit finding was errors in the calculation of inpatient hospital reimbursement rates which resulted in an overpayment to inpatient hospital providers of \$6.7 million during state fiscal year 2018, of which \$4.1 million was federal funds.

The Department of Legislative Audit (DLA) had two recommendations. The 1st recommendation was that DSS implement stronger controls over the calculations to prevent and detect errors. The 2nd recommendation was to recover the overpayments to providers. DSS concurs with the findings and recommendations.

Corrective action plan & status of corrective action plan

Recommendation 1: DSS will identify and implement enhanced procedures and controls related to the process of calculation and implementation of rates. DSS requested BIT enhance controls related to programming to ensure accuracy. Anticipated completion date of April 1st.

Status of Recommendation 1: DSS has implemented enhanced procedures and internal controls related to the DRG calculation and implementation of rates. These enhanced procedures include:

- Performing independent side-by-side DRG calculations by two staff people including milestones for comparison throughout the procedures
- DSS CFO will review and sign-off
- Additional testing of paid claims will be sampled and reviewed for accuracy of payment throughout the year
- Additional oversight of potential updates to the claim-processing system prior to the release of updates
- 2nd BIT developer will verify procedures throughout their process

Additionally, as part of the corrective action plan related to recommendation 1, DSS committed to retaining a 3rd party expert to make recommendations about the process, procedures and controls related to the calculation and implementation of DRG reimbursement rates. DSS retained a 3rd party expert during March 2019. The expert provided several recommendations, some of which DSS had already identified and incorporated into our enhanced controls and procedures.

Recommendations already incorporated by DSS:

- Two staff people performing DRG calculations with milestone comparisons
- 2nd level review formula consistency and accuracy for weight calculations
- 2nd level review of hospital provider list

Recommendations to be incorporated by DSS:

- Move the implementation date of annual DRG weight update to January 1st. Data used to complete the DRG calculations is available at September month-end. Historically, DSS has completed the calculations in September/October and implemented the new weights in October resulting in a very short turnaround to review, test, and implement the DRG calculations. Going

forward, DSS will complete the calculations in September/October and implement the new weights in January in conjunction with implementation of annual Medicare updates. This will allow adequate time for secondary review and additional testing activities to occur prior to implementation. We will be discussing these changes with impacted hospitals over the course of the next few months.

- Year-over-year comparison of DRGs and claims for reasonableness

Two identified risks in the DRG calculation are the manual processes used to determine the DRG weights and the timeframe for completion of the DRG calculations. In addition to the steps taken above, DSS has provided additional training, education and reinforced accountabilities with staff. Also, lengthening the timeframe for implementation will reduce the risk of errors.

Recommendation 2: DSS will recover the overpayments from providers. DSS began collecting overpayments in January 2019 and \$6.0 million total dollars has been collected through May 15, 2019. DSS anticipates completing 100% of all recoveries by June 30, 2019. Collections are related to a prior fiscal year and the general fund share is deposited in the state general fund. DSS is required to return the federal share to the Centers for Medicare and Medicaid Services (CMS).

CMS has reviewed the audit finding and corrective action plan and concurs with the findings and recommendations. Once all collections have been completed and reported to CMS we anticipate the finding to be resolved.