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KANSAS HEALTH POLICY AUTHORITY

Office of
Inspector General

Kansas Health Policy Authority
Office of Inspector General

Annual Audit Plan
April 22, 2008 through June 30, 2009

Presented by:
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Inspector General

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Message from the Inspector General

April 22, 2008

This inaugural Annual Audit Plan describes the Kansas Health Policy Authority (KHPA) Office of Inspector General's (OIG) proposed audit activities for the period April 22, 2008 through June 30, 2009. As required by the KHPA Board's bylaws, it was submitted to the Board's Finance and Audit Committee for review and recommendation prior to being submitted to the full Board for approval.

The audit activities described in this Annual Audit Plan were selected because of: 1) their relevance to KHPA's mission and vision; 2) the potential vulnerability of the areas proposed to be audited; and 3) the KHPA OIG's statutory mandate. The proposed audit activities would be subject to change if unanticipated matters of higher priority were to arise or staff resources were to change. The OIG's progress in its audit activities, and any changes to the Audit Plan, will be regularly reported to the Finance and Audit Committee.

The results of the OIG's audit activities will be reviewed by the Finance and Audit Committee prior to acceptance by the full KHPA Board. Other related ad hoc communications from the OIG will be provided to the full Board at the Committee's discretion. Summaries of the OIG's audit activities will also be reported in the OIG's annual report to the Governor and the Legislature as required by K.S.A. 75-7427, the OIG's enabling act.

I am available to answer any questions about the Annual Audit Plan at any time. Please feel free to contact me at 785-296-2112 or Robin.Kempf@khpa.ks.gov.

Sincerely,

Robin J. Kempf
Inspector General

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Background and Mission

The Kansas Health Policy Authority (KHPA) Office of Inspector General (OIG) is the first statutorily created Inspector General's office in the State of Kansas. It was created by the 2007 Kansas Legislature as part of a much larger health reform bill, commonly referred to as Senate Bill 11. The KHPA OIG is dedicated to provide independent oversight of KHPA and to help KHPA meet its statutory mission.

KHPA, which itself was created only recently by the Legislature in 2005, has a mission to develop and maintain a coordinated health policy agenda that combines the effective purchasing and administration for health care with health promotion oriented public health strategies. It meets this mission through its management of the Kansas Medicaid Program, the State MediKan Program, the State Children's Health Insurance Program, the State's Self Insurance Fund for Workers Compensation and the State Employee Health Benefits Plan. The powers, duties and function of KHPA are intended to be exercised to improve the health of the people of Kansas by increasing the quality, efficiency and effectiveness of health services and public health programs.

As KHPA's partner, the OIG's mission is:

- to provide increased accountability and integrity in KHPA's programs and operations;
- to help improve those programs and operations; and
- to identify and deter fraud, waste, abuse and illegal acts in the Kansas Medicaid Program, the State MediKan Program and the State Children's Health Insurance Program.

The OIG meets its mission through performance reviews, financial audits, and investigations.

What is a performance review? A performance review, also known as a performance audit, is an examination of a program, function, operation or the management systems and procedures of an entity to assess whether the entity is achieving economy, efficiency and effectiveness in using its available resources. A performance audit can also review compliance with applicable laws and regulations.

What is a financial audit? A financial audit is the examination of the financial statements of an entity that results in the publication of an independent opinion on whether or not those financial statements are relevant, accurate, complete, and fairly presented. A financial audit can also review internal controls related to financial processes and compliance with applicable laws and regulations.

What is an investigation? An investigation is inquiry into specific circumstances surrounding an allegation or incident of fraud, waste, abuse or illegal acts. It attempts to determine the extent of the incident, the amount of loss, and what weaknesses may have existed that lead to the allegation/incident. Investigative reports may make corrective action recommendations intended to avoid similar problems in the future.

To plan the OIG's *performance audit work* for the upcoming year, OIG staff has crafted this Annual Audit Plan based on the methodology described in the next section. The OIG will contract with an independent accounting firm to perform any *financial audit work* that is identified by the OIG or the KHPA Finance and Audit Committee, as necessary. *Investigation work* will be handled by OIG staff as issues arise.

Annual Audit Plan Development

This Annual Audit Plan is a risk-based plan, which means that it is intended to address KHPA programs and operations that appear to be more vulnerable to risk. In other words, the KHPA OIG staff has shaped this Audit Plan to examine programs or operations that, in OIG staff's professional judgment, demonstrate a higher susceptibility to unfavorable events, or risk factors, that could lead to a financial loss or an inability to meet KHPA objectives. To develop this plan, OIG staff pursued a risk assessment modeled after a process developed by the U.S. Government Accountability Office. (See "Determining Performance and Accountability Challenges and High Risks," GAO-01-159SP, for more information.)

The OIG's risk assessment was intended to accomplish three goals:

- Provide OIG staff insight into KHPA programs and operations as well as concerns of KHPA management
- Identify areas to address in the OIG's annual audit plan and a 3-year strategic plan
- Inform the KHPA Board and management of higher risk areas, providing them opportunity to decide if risk reduction strategies should be initiated or if risk is acceptable

To complete the risk assessment, OIG staff first interviewed KHPA staff and reviewed agency documentation to create a list of functions that KHPA is responsible for. The list was refined to focus on those programs and operations that are central to KHPA's mission and that had at least one year's track record.

Next, OIG staff identified risk factors that auditing literature suggests can impact large, complex governmental programs such as those at KHPA. OIG staff weighted the risk factors based on importance. Examples of risk factors include:

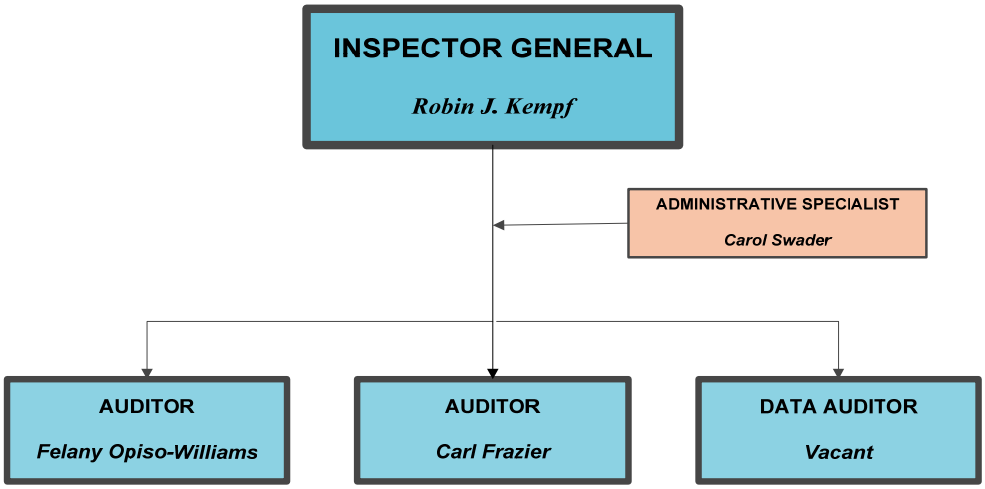
- A high level of complexity of operations or services
- Vulnerability to changes in funding or revenues
- Susceptibility to changes in laws and regulations
- The financial impact of noncompliance with applicable federal rules
- A large geographic expanse of service delivery systems

OIG staff used their professional judgment to measure the probability that the identified risk factors could occur as well as the extent of their potential impact to each of KHPA's key programs and operations. In addition, OIG staff reviewed safeguards that KHPA had put into place that would mitigate this impact. The result was a list of 15 programs and operations that demonstrated the highest vulnerability to the weighed risk factors. This list was shared with KHPA management to build consensus.

Based on the results of the risk assessment process and research into the experiences of other states, OIG staff formulated the scope of audit work for five programs and operations. Careful consideration was made to the staff resources available to the OIG for this audit work. Other programs and operations identified in the risk assessment are reflected in the Long Term Strategic Audit Plan. A discussion of staff resources is found below, followed by the proposed Annual Audit Plan and the proposed Long Term Strategic Audit Plan.

KHPA OIG Organization Chart and Staff Resources

At the time of this report, the OIG continues to search for highly qualified individuals to round out the OIG audit team. The current organization chart is as follows.



To determine the amount of performance audit work that could reasonably be completed in the period of time covered by the Annual Audit Plan, assuming that the OIG were fully staffed, the following calculations were performed.

Calculation of Staff Resources Available to the OIG

[Note: Hours contributed from the IG for supervisory review are not included.]

One full time equivalent (FTE) auditor:
40 hours x 52 weeks = 2080 hours
Less 10 days (80 hours) vacation = 2000 hours
Less 5 days (40 hrs) sick leave = 1960 hours
Less 10 days (80 hrs) training = 1880 hours

Three full time equivalent auditors:
1880 hours x 3 = 5640 hours
Less 3 months (480 hrs) planned leave = 5160 hours

Rule of thumb: Plan for 80% of allowable time, in order to be responsive to investigations or other priorities that could arise
80% of 5160 hours = 4128 hours

Estimating that a performance audit requires approximately 800 hours, the OIG should be able to complete 5 audits in one fiscal year's time.

Annual Audit Plan through Fiscal Year 2009

This Annual Audit Plan would address the programs and operations at KHPA that are listed in the box to the right. Proposed questions that would be answered in each audit are listed in more detail below; however, the precise questions and the scope of the audits could vary depending on the existence, availability, and accessibility of information, as well as the quality of the data and the resources available to the OIG.

Top Five Areas for Review

1. Medicaid Fee-for-Service
2. Medicaid Pharmacy
3. Medicaid Provider Relations
4. Medicaid Claims Management
5. KHPA Contract Procurement

All audit work performed by the KHPA OIG will comply with the generally accepted *Government Auditing Standards* (July 2007 Revision) promulgated by the U.S. Government Accountability Office. Audit work papers will be open to the extent consistent with the Kansas Open Records Act and the KHPA OIG enabling legislation.

1. Medicaid Fee-for-Service: Do KHPA's policies and procedures for the home health fee-for-service program promote good stewardship of government funds?

This performance audit would answer the following questions:

a. What services are covered under the home health fee-for-service program?
b. What controls are in place to ensure the appropriateness and accuracy of payments and to prevent fraud?
c. What has KHPA done to promote cost savings in the home health fee-for-service program?
d. Based on audit findings, what additional policy or program changes should KHPA consider implementing?

To answer these questions, OIG staff would review relevant policy and procedure manuals and federal guidelines and regulations. Staff would also conduct interviews with KHPA and EDS staff. Home health fee-for-service claims data from several recent fiscal years would be analyzed, and irregularities in the claims data, if any, would be further investigated.

2. Medicaid Pharmacy: Does the pharmacy program have adequate controls to prevent inappropriate use of prescription drugs?

This performance audit would answer the following questions:

a. What controls does KHPA have in place to prevent issues in the pharmacy program such as doctor hopping; drug diversion; dispensing of drugs with contra-indications, duplicate medicines, or excess dosages; and reimbursing for drugs off the list in the Medicaid program?
b. How prevalent might these issues be, and are KHPA's controls adequate?
c. Based on audit findings, what additional policy or program changes should KHPA consider implementing?

To answer these questions, OIG staff would interview KHPA and EDS staff and review any relevant studies, reports and analyses EDS or KHPA may have already done. Staff would also assess KHPA and EDS' internal controls relevant to this audit and analyze pharmacy claims data from several recent fiscal years.

3. <u>Medicaid Provider Relations</u>: Are KHPA policies and procedures for provider terminations and sanctions adequate to help ensure patient safety and the financial integrity of Medicaid?

This performance audit will answer the following questions:

a. What processes are currently in place to monitor providers and ensure their compliance with laws, regulations and program guidelines?
b. Is the program timely in terminating or otherwise sanctioning providers who no longer comply with policies and procedures or who violate laws and regulations?
c. Have any previously terminated providers or any individuals who voluntarily terminated or quit billing been able to get back into the system?
d. Based on audit findings, what additional policy or program changes should KHPA consider implementing?

To answer these questions, OIG staff would review relevant laws, regulations, program guidelines, and any related provider documentation, including changes implemented in fiscal year 2008. Staff would also interview KHPA and EDS staff and analyze relevant provider data from several recent fiscal years.

4. <u>Medicaid Claims Management</u>: How effective is KHPA's oversight of its fiscal agent's claims processing?

This performance audit will answer the following questions:

a. How does KHPA oversee EDS' Medicaid claims processing?
b. Is KHPA's oversight effective to ensure EDS' compliance with contractual obligations?
c. Are claims processed timely and accurately according to policies and procedures?
d. Based on audit findings, what additional policy or program changes should KHPA consider implementing?

To answer these questions, OIG staff would review KHPA's contract with EDS, interview KHPA and EDS staff, and analyze several recent fiscal years' claims data.

5. <u>Medicaid/SCHIP/SEHBP Contract Procurement</u>: How does KHPA promote good stewardship in its contract procurement processes?

This performance audit will answer the following questions:

a. How does KHPA ensure contractors selected are the best qualified bidders?
b. How often does KHPA enter into sole source contracts, and what safeguards are used to ensure compliance with applicable statutes?
c. How does KHPA ensure compliance with Kansas contracting laws, especially those related to professional contracts?
d. Based on audit findings, what additional policy or program changes should KHPA consider implementing?

To answer these questions, OIG staff would interview KHPA and Kansas Department of Administration staff and analyze relevant documents.

Long Term Strategic Audit Plan through Fiscal Year 2012

The following proposed Long Term Strategic Audit Plan covers three fiscal years subsequent to the year that would be covered by the proposed Annual Audit Plan. It is preliminary in nature and subject to change, only intended to provide guidance to KHPA and the OIG regarding the priorities identified in the OIG's risk assessment as well as management priorities. Each year, OIG staff will perform a new risk assessment process and adjust the Long Term Strategic Audit Plan goals necessary.

Fiscal Year	Topic	Comments
FY 2010	Medicaid Fee-For-Service	Reviewing the Effectiveness of the New Program Review Process
FY 2010	Kansas Department of Social and Rehabilitation Services' (SRS) Medicaid Programs	Reviewing SRS' programs as well as the effectiveness of interagency coordination
FY 2010	Medicaid/State Children's Health Insurance Program (SCHIP) Managed Care	Reviewing KHPA's oversight of its managed care programs
FY 2010	Contract Management: Medicaid/SCHIP/State Employee Health Benefits Plan (SEHBP)	Reviewing KHPA's oversight of its contractors
FY 2010	Follow up on FY 2009 Audits	
FY 2011	Kansas Department on Aging (KDOA) Medicaid Programs	Reviewing KDOA's programs as well as the effectiveness of interagency coordination
FY 2011	Local Education Agencies Use of Medicaid funds	Follow-up on HHS OIG's audit on this issue in FY 2007
FY 2011	Workers Compensation	Reviewing the economy, effectiveness and efficiency of KHPA's workers compensation program
FY 2011	Coordinating SEHBP and the Public Health programs	Reviewing KHPA's statutory mission
FY 2011	Follow up on FY 2010 Audits	
FY 2012	Kansas Department of Health and Environment (KDHE) Programs Funded by KHPA	Reviewing KDHE's programs as well as the effectiveness of interagency coordination
FY 2012	Kansas Juvenile Justice Authority (JJA) Programs Funded by KHPA	Reviewing JJA's programs as well as the effectiveness of interagency coordination
FY 2012	Medicaid Surveillance Utilization Review	Reviewing the effectiveness of program integrity actions
FY 2012	Federal Reporting	Reviewing KHPA's accuracy in federal reporting
FY 2012	Follow up on FY 2011 audits	

Statement of Concurrence from the KHPA Executive Management Team

The Statement of Concurrence is found on the following page.

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April 14, 2008

Mr. Ned Holland
Chair, KHPA Finance and Audit Committee
Kansas Health Policy Authority Board
900 Jackson, 9th Floor
Topeka, KS 66612

Dear Mr. Chairman:

The Kansas Health Policy Authority Executive Team has reviewed the Office of Inspector General's proposed audit plan for FY 2009. Each member was consulted on the risk assessment that identified the auditable areas and proposed audit topics. Our input was incorporated in the draft audit plan submitted for your review.

We concur with the topics as proposed for FY 2009. The areas under review: Medicaid Fee for Service, pharmacy, provider enrollment, and contract oversight, are areas of significance given the amount of money spent and complexity of the Medicaid program.

The proposed audit plan coordinates with the strategic planning and risk management efforts within KHPA. The risk assessment will be used as a platform to target other areas of KHPA for review by program staff and internal audit under direction of the Chief Financial Officer. Our internal focus is on developing measures of administrative efficiency and effectiveness while improving business processes. While specific topics will be developed in cooperation with the Finance and Audit Committee and the KHPA Board of Directors, the areas with significant concern are contract management across KHPA programs, oversight within the State Employees Health Benefits Program, and compliance with federal requirements and Medicaid reporting requirements. The Office of Inspector General audit plan, combined with other federal and state audits, internal program reviews, and ongoing compliance oversight, will work together to improve KHPA performance.

We look forward to working with Inspector General Kempf and her staff on these audits and other activities. We assure that KHPA resources will fully cooperate with the Inspector General of these and other projects.

Sincerely,

Marcia Nielsen, PhD., MPH
Executive Director

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