



STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

March 28, 2013

TO: The Honorable Mele Carroll, Chair
House Committee on Human Services

FROM: Patricia McManaman, Director

SUBJECT: **H.C.R. 184 – REQUESTING THE AUDITOR TO CONDUCT A
COMPREHENSIVE FINANCIAL AUDIT OF THE DEPARTMENT OF
HUMAN SERVICES MED-QUEST DIVISION, WITH EMPHASIS ON
THE MEDICAID PROGRAM**

Hearing: Thursday, March 28, 2013; 10:00 a.m.
Conference Room 329, State Capitol

PURPOSE: The purpose of this resolution is request the State Auditor to conduct a comprehensive financial audit of the Med-QUEST Division (MQD).

DEPARTMENT'S POSITION: The Department of Human Services (DHS) provides the following comments on H.C.R.184.

The resolution cites information from audit reports by the State Auditor on the Medicaid program for 2001 and 2003 that are a decade old. More recent annual financial and compliance audits of the DHS which includes the Med-QUEST Division (MQD) are available on the DHS website. This audit is contracted yearly by the State Auditor. The most recent for FY 2011 is available and the 2012 audit is in the process of being completed. We refer to these audits as a more current and therefore, more accurate depiction of the operations of the MQD.

Staffing and resource limitations are identified as the cause throughout the financial and compliance report. In the draft 2012 audit, MQD findings include a substantial improvement in eligibility processing and program integrity, despite current staffing levels being significantly below those in effect prior to the reduction in force (RIF). As a result of the prolonged hiring freeze and reduction in force, MQD staffing capacity was reduced by 53%. MQD greatly appreciates restoration of 15 of the 33 eligibility positions lost in the RIF, and has requested 5 additional program integrity positions. Another finding results from the loss of the single pharmacist position through the RIF. Restoration of a part-time pharmacist position is included in the Governor's budget.

HMS 902, which is used to fund these activities, continues to be substantially under funded, and the \$1.5 million removed from the MQD base in response to a contract under the previous administration from which MQD did not benefit, that primarily served other aspects of DHS, has not been restored despite annual requests by MQD.

In addition to the aforementioned independent State audits, MQD is closely overseen by the federal government. MQD is required to submit quarterly financial and programmatic reports, participates in mandatory programs such as Program Error Rate Management (PERM), and is subject to numerous federal audits. The 2011 PERM audits conducted by CMS contractors for the purpose of identifying improper claims payments, data processing errors and eligibility vulnerabilities were just completed, and CMS found an extremely low error rate with total expenditures in error amounting to approximately \$40,000. The Medicaid Integrity Contract audits, conducted by CMS contractors, have identified \$9,000,000 in overpayments that have been recovered.

Additionally, program integrity reviews by MQD staff have identified over \$1,000,000 in inappropriate payments to non-emergency transportation providers and over \$7 million

from other providers, and the recent successful prosecution and conviction of a dental provider.

Overpayment does not necessarily indicate fraud. Based on MQD staff review, an average of five cases per year has been referred to the Medicaid Fraud Control Unit in the Department of Attorney General over the past three years.

To provide oversight of its managed care programs, MQD has numerous reporting requirements of its health plans and a calendar and report templates can be provided to the Legislature upon request.

An audit can be a very useful tool to identify areas to improve operations, however, to make such improvements additional resources are typically necessary. Given all of the audits and oversight to which MQD is subject, MQD's performance as reflected in audits performed in this decade, and MQD's current efforts to restore staffing, yet another audit of MQD at this time may not be the best use of taxpayer funds.

Thank you for the opportunity to comment on this measure.