

**DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF DIRECTOR**

ACTION REFERRAL

TO <i>Supra</i>	DATE <i>5-14-13</i>
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DIRECTOR'S USE ONLY	ACTION REQUESTED
1. LOG NUMBER <i>000350</i>	<input type="checkbox"/> Prepare reply for the Director's signature DATE DUE _____
2. DATE SIGNED BY DIRECTOR <i>cc: Deps, Mr. Heck</i>	<input type="checkbox"/> Prepare reply for appropriate signature DATE DUE _____
	<input type="checkbox"/> FOIA DATE DUE _____
	<input checked="" type="checkbox"/> Necessary Action

APPROVALS (Only when prepared for director's signature)	APPROVE	* DISAPPROVE (Note reason for disapproval and return to preparer.)	COMMENT
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MAY 14 2013

Department of Health & Human Services
OFFICE OF THE DIRECTOR

State of South Carolina
Office of the Inspector General

April 30, 2013

Director Anthony E. Keck
1801 Main Street
Columbia, South Carolina 29202

Dear Director Keck:

The purpose of this letter is to provide an assessment and recommendations on the State Inspector General's review of the Department of Health & Human Services' (DHHS) Medicaid eligibility process. The Inspector General's role in this project was two-fold. First, Inspector General staff consulted with DHHS's task force addressing deficiencies in its eligibility process identified in an audit report. Second, the Inspector General then used a separate team to assess the eligibility process after improvements were implemented by the DHHS task force.

As background, the Federal Centers for Medicare and Medicaid Services (CMS) conducted a Fiscal Year (FY) 2010 (10/1/2009-9/30/2010) audit of DHHS's eligibility process to determine improper Medicaid payments to ineligible recipients. The audit sampled 504 files approved for Medicaid and determined 52 (10.3%) cases were incorrectly approved for benefits. These 52 cases in the sample had \$22,464 in benefits paid in error. This very small sample dollar error was extrapolated, based on the type of class for each error, to estimate benefits paid in error totaling \$406.3 million. The \$406.3 million was a 17.2% error rate, known as the Payment Error Rate Measurement (PERM), in terms of total dollars expended. This 17.2% dollar error rate was over four times the national 4.0% dollar error rate.

The DHHS set out an action plan to identify root causes for this high PERM error rate and implement solutions. The itemized root causes can be summed up in weaknesses in the fundamentals of management: training, supervision, standardized processes, and internal controls/audit. DHHS's vision to address this problem should be commended in having both short term tactical actions and a new strategy for a long-term solution. The DHHS's strategy for a long-term solution hinges on developing an automated eligibility process with an electronic workflow tool known as "On Base" (OB). The benefits of automation are many to include allowing employees to specialize in components of approving eligibility; even out workload throughout the many county field offices; simplify decisions through a menu driven approach; build in quality controls; and incorporate reporting capabilities to better manage performance through metrics. The OB began its field roll out in 2012, and is expected to be completed by July 2013.

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The DHHS's specific tactical actions included, but not limited to, a mandatory standardized procedures checklist to facilitate thorough and complete eligibility assessments; training; human resource actions; and enhanced auditing and individual feedback to employees, work units, and area divisions. The audit feature, known as EQUIP, was an impressive initiative of constant auditing of eligibility files by an external independent entity to assess organization performance; make data driven decisions on improvement initiatives, such as policies, processes, and training; and provide feedback tracked by individual, supervisor, and area manager.

These tactical actions have significantly improved performance. The EQUIP audits, which measured high risk PERM errors, examined 8543 files (through 12/31/2012) yielding only 311 eligibility errors (3.6%). The FY13 PERM is about one-third complete; a review of 304 files to date yielded 12 files in error (4%). Both of these statistics compare favorable to the FY10 PERM 10.3 % eligibility error rate. Converting the interim FY13 4% eligibility error rate to obtain the PERM dollar error rate is currently not available. However, if the same FY10 dollar multiplier was used, this 4% would convert into a 6.68% PERM dollar error rate. This is a tremendous improvement over a 17.2% FY10 PERM rate, but it still higher than the FY10 national PERM average of 4%. In summary, the tactical actions dramatically improved PERM performance, likely lowering it near the FY10 national average.

Further analysis into the EQUIP depicted a potential area to improve. 80% of EQUIP's eligibility errors pertain to two simple mechanical, as opposed to analytical or mathematical, actions by an employee. Of the 311 error files causing ineligibility, 114 pertained to lack of a 2700 form (Department of Social Services child support record check) and 134 failed to refer client for other benefits (Veterans, Social Security, or unemployment). Currently, only a fraction of approved eligibility cases are reviewed by first line supervisors because of the extensive time commitment required to examine the details of each case. However, a first line supervisor could conduct a very narrow scope review of each completed case for only these two perfunctory checks to ensure compliance, which would only take five minutes per case. This small time investment in this limited scope review would eliminate 80% of the eligibility errors, which would reduce the interim FY13 PERM to 0.8% eligibility error rate which, using FY 10 PERM dollar multiplier, yield 1.3% PERM dollar error rate.

The OIG interviewed eleven county supervisors, three regional administrators, and one region manager. The OIG's observations of these field interviews were:

- The OB electronic workflow and processing change from a case management to a business process system has been generally accepted by field personnel as a pathway to enhance performance and facilitate their efforts.
- Staffing shortages in field offices are causing stress and inhibiting appropriate supervision. It was recognized that field staffing decisions are balanced with staffing the new OB initiative, and these staffing gaps will be addressed through OB's ability to shift workloads between field offices.
- There was an unusually high volume of comments on the lack of communication between Headquarters and field offices. There is inherently friction between field offices and Headquarters in all organizations, but the lack of proactive communications and the receptivity of field feedback seemed to be inordinate.

- There was an unusually high volume of comments on the need to improve the clarity of eligibility policy. The policy was often cited as vague leading to different interpretations. Enhancing clarity by evolving policy to more granular unambiguous procedures was offered by employees as the direction for improvement.
- The role of first line supervision varied widely. It seems like first line supervisors are drawn into becoming front line employees due to staff shortages; had an unrealistic reliance on “trainers” to train their subordinates; and had little time or protocols for oversight of casework. Very few first line supervisors interviewed had a clear understanding of their roles and responsibilities.
- High performing county offices had fundamental management procedures in place for training subordinates both initially and through periodic updates, measuring quality, and taking corrective actions when performance deviations identified. These procedures were self-developed on the job, rather than standard procedures disseminated statewide by Headquarter program managers.
- Reports were heard of high turnover in larger metropolitan areas due to significant disparities in pay between South Carolina caseworkers and those doing similar jobs in Georgia and North Carolina. Concerns were voiced over “pay compression” with new hires being paid the same as long term employees due to the absence of merit pay or a career ladder structure. Senior employees recommended a return to the system of multiple caseworker positions of increasing responsibility and with progression based on demonstrated performance.

The IG makes the following recommendations:

Recommendation #1: Implement a standardized supervisory control, both in the current system and OB, for supervisory review of eligibility files prior to approving to ensure form 2700 is completed and all referrals for other benefits are completed.

Recommendation #2: Examine communication mechanisms between Headquarters and field offices to improve frequency and clarity of communications, as well as mechanism for formal feedback and resolution.

Recommendation #3: Communicate staffing strategy with field offices to explain shortages of personnel, and take appropriate action to remedy or explain strategy for not filling vacancies to lower field office frustrations.

Recommendation #4: Solidify the roles and responsibilities of first line supervisors in the OB workflow.

Recommendation #5: Establish standardize performance management protocols and internal controls for managers, at all levels, and train managers to use OB electronic reports to drive setting fundamental performance expectations and metrics to measure.

Recommendation #6: Consider establishing career ladders for field eligibility examiners based on performance.

In summary, the most overwhelming observation was the commitment to continuous improvement demonstrated by leadership, which was clearly understood by field personnel as the new norm. All the signs of change fatigue were present at Headquarters and the field, but there was also the pride of truly making changes that will ultimately make the process better, simpler, and easier for both the customer and DHHS personnel. The DHHS took on the difficult task to "fix the plane while they were flying", while simultaneously overhauling the plane akin to moving from propellers to jets. If DHHS maintains their commitment, despite change fatigue, in working out the inherent bugs of OB and build a management program to fully optimize OB's capabilities, there is little doubt the DHHS will achieve its long-term solution to the PERM issue.

Sincerely,

A handwritten signature in cursive script that reads "Patrick J. Maley". The signature is written in black ink and includes a long horizontal flourish extending to the right.

Patrick J. Maley
Inspector General

PM/pw

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COLUMBIA SC 29210

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