Follow up to OAG testimony at House Oversight Committee on May 23, 2019 regarding Performance Audit Report on the Oversight and Encounter Claim Integrity of the Comprehensive Health Care Program, MDHHS

Audit sampling (one method of obtaining audit evidence) is the selection and evaluation of less than 100 percent of the population such that the auditor expects the sample results to be the same as if they had audited the entire population, and thus, provide a reasonable basis for conclusions about the entire population.

Finding 1, part a.:

Population: 230.6 million encounter claim records that MDHHS provided to its actuary.
Total capitated rate payments during audit period: $19.3 billion.
Desired Confidence level: 95%
Expected error rate: 1%
Tolerable error rate: 6%

Based on the above factors, we calculated a minimum sample size of at least 93 records to provide us with a 95% confidence level that our sample results would be indicative of the entire population of 230.6 million records. Based on the distribution of encounter claims by claim type and fiscal year, and to ensure that our sample was representative, we randomly selected 115, but tested 113 encounter claims, as follows:

1. We randomly selected 101 beneficiaries, and identified 31,396 related encounter claims.
2. We randomly selected one encounter claim from each of the 101 beneficiaries.
3. We randomly selected 14 additional encounter claims from provider type A060 (Facility/Agency/Organization – hospital, nursing facility, various entities) to ensure that our sample was representative of the entire population.
4. We eliminated 2 sample items: 1 because the facility had closed, and 1 because of a provider server failure.
5. Remaining sample size: 113 transactions, totaling $2,476.47.

Based on our sampling methodology, we can be 95% confident that the error rate of 6% (noted in finding 1.a.) is reflective of the error rate within the entire population. To put our sample results into perspective, we used a nonstatistical method to extrapolate (project) a likely dollar value of the potential total error in the population.

1. The 7 unsupported sample items (6%) totaled $111.
2. $111/$2,476.47 = 4.46% error rate.
3. $19.3B * 4.46% = $861.3 million *32/12 (to annualize the error amount: 32 months in our audit period, and 12 months per year) = $323.0M*.7063674 (previously determined that every $1 million error in the encounter claim data would lead to incorrect capitated rate payments of more than $700,000) = $228.16 million in excess capitated rate payments per year.
4. This represents 3.2% of the annual capitated rate payments. The State's General Fund share of this estimated amount would be about 34.5% or $78.8 million.

Finding 1, part b.:

We did not project for this part. Although the encounter claims submitted into CHAMPS did not identify the correct provider, documentation was provided that supported a legitimate service and, as noted in the finding, we were able to determine that the providers identified on the medical records were in fact eligible.

Finding 2:

The exceptions identified in part a. were 100% of the encounter claims that CHAMPS had flagged as "probable duplicates" and having an inappropriate diagnosis code based on the beneficiary's age or gender.

The exceptions identified in part b. were 100% of the encounter claims related to services provided by providers who had been sanctioned at least 30 days prior to the claim's date of service or who were deceased prior to the claim's date of service, or for services provided to beneficiaries who were deceased prior to the claim's date of service.

Therefore, the only projection/extrapolation for Finding 2 was to determine the impact on the capitated rate payments, as follows:

Total errors of $331.5 million *32/12 (to annualize the error amount – 32 months in our audit period, and 12 months per year) = $124.3 million *.7063674 (previously determined that every $1 million error in the encounter claim data would lead to incorrect capitated rate payments of more than $700,000) = $87.8 million in excess capitated rate payments per year. This represents 1.2% of the annual capitated rate payments. The State's General Fund share of this estimated amount would be about 34.5% or $30.3 million.

Glossary

- Population – The entire data set from which the sample is drawn and for which the auditor wishes to draw conclusions about.

- Audit sampling – The selection and evaluation of less than 100 percent of the population such that the auditor expects the sample to be representative of the population and, thus, likely to provide a reasonable basis for conclusions about the population. The auditor may choose to use either a statistical or a nonstatistical sampling method.

- Representative – The sample items are a fair representation of the data within the population such that issues noted during the review of sampled items would reasonably be expected to exist if the same procedures were applied to the entire population.

- Statistical sample – Involves a random selection of sample items and the use of appropriate statistical techniques to evaluate the results, including the measurement of sampling risk.

- Nonstatistical sample – Often randomly selected and representative of the population, however, sampling risk either cannot be, or is not measured, when **evaluating** the results of a nonstatistical sample. The auditor may use judgement to calculate the impact on the remaining population to give the reader perspective in relation to the identified errors. The American Institute of Certified Public Accountants Audit Sampling guide indicates that nonstatistical sampling is an acceptable sampling method and can provide results that are as effective as those provided by a statistical sample.

- Sampling risk – A component of audit risk, and the risk that the auditor's conclusion based on the sample may differ from the conclusion had the entire population been subject to the same audit procedure.

- Confidence level represents the degree of reliability that the auditor places on the sample results. A 95% confidence level means that the auditor reviewed a sufficient number of sample items to be 95% confident that the sample results will be reflective of the population. This confidence level also takes into consideration audit risk, the expected percentage of error, and the percentage of errors that we were willing to tolerate.

List of providers, associated beneficiary's county of residence, and associated MHP for the 7 claims with missing medical records listed in Finding 1, Subpart a.

Missing Record Number	Provider	Associated Beneficiary's County of Residence	Associated MHP
1	No billing or rendering service provider identified on the claim.	Genesee	Meridian Health Plan
2	Detroit Receiving Hospital	Macomb	UnitedHealthcare Community Plan
3	Sinai-Grace	Wayne	Aetna Better Health of MI
4	No billing or rendering service provider identified on the claim.	Macomb	UnitedHealthcare Community Plan
5	No billing or rendering service provider identified on the claim.	Wayne	UnitedHealthcare Community Plan
6	Anne-Mare' Ice MD PC	Kalamazoo	Blue Cross Complete
7	Barbara Ann Karmanos Cancer Hospital	Wayne	UnitedHealthcare Community Plan