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NORTH CAROLINA
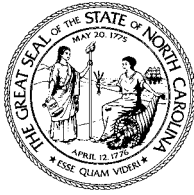
PERFORMANCE AUDIT

DEPARTMENT OF HEALTH AND HUMAN SERVICES
DIVISION OF MEDICAL ASSISTANCE

KEY AGENCY INDICATORS

JUNE 2011

OFFICE OF THE STATE AUDITOR

BETH A. WOOD, CPA

STATE AUDITOR

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DIVISION OF MEDICAL ASSISTANCE

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JUNE 2011

June 14, 2011

The Honorable Beverly Perdue, Governor
Members of the North Carolina General Assembly
Lanier M. Cansler, Secretary, Department of Health and Human Services
Craigan L. Gray, Director, Division of Medical Assistance

Ladies and Gentlemen:

We are pleased to submit this performance audit titled *"Department of Health and Human Services – Division of Medical Assistance, Key Agency Indicators."* The audit objectives were to determine if the Division of Medical Assistance (Division) has (1) established key agency indicators that have a clear relationship to agency goals, (2) reported accurate and supported performance information to the Office of State Budget and Management (OSBM), and (3) established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently. Secretary Cansler reviewed a draft copy of this report. His written comments are included in the appendix.

The Office of the State Auditor initiated this audit to ensure that the Governor, Legislature, OSBM, and the citizens of North Carolina have accurate and meaningful information to evaluate state agency performance and make budgeting decisions.

We wish to express our appreciation to the staff of the Division of Medical Assistance for the courtesy, cooperation, and assistance provided us during the audit.

Respectfully submitted,

Beth A. Wood

Beth A. Wood, CPA
State Auditor

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SUMMARY

PURPOSE

This audit evaluated the Department of Health and Human Services – Division of Medical Assistance's (Division) key agency indicators[1] for state fiscal years 2008 through 2010 to ensure that accurate and meaningful information is available to evaluate the Division's performance and make budgeting decisions. We made recommendations so the Governor, Legislature, Office of State Budget and Management, and Division management can take appropriate corrective action.

RESULTS

The Division's key agency indicators, first reported in fiscal year 2007-08, are not meaningful measures of its performance. Specifically, two of the three key agency indicators are not clearly linked to the Division's goals and do not provide a method for decision-makers such as the Governor, Legislature, Office of State Budget and Management, and Division management to measure the Division's progress toward achieving its goals. Additionally, the key agency indicators are not used for decision making by agency management which further suggests that the indicators do not measure divisional goal-achievement. Also, the Division did not develop a written strategic plan to clearly demonstrate how the Division's key indicators measure progress toward goal-achievement. As a result, decision-makers may lack information necessary for determining whether the Division is achieving the goals for which state appropriations were allocated to it.

The Division did not calculate the amounts of the key agency indicators identified in 2008 for state fiscal years 2008-09 and 2009-10 and therefore, could not report them to the Office of State Budget and Management (OSBM). It should also be noted that OSBM did not enforce its reporting requirement.

Management did, however, develop a new set of indicators and reported these indicators to OSBM on a monthly basis in a dashboard report. Management states that these indicators focus on the consumption of resources, recipient costs, and other program specific information by section within the Division. Management also asserts that the indicators can be used to monitor performance, identify trends as they emerge, and report on the achievement of legislated results.

Although the dashboard reports with these measures were available on the Departments website, the indicators identified in 2008 continued to be posted on the OSBM's website as the key agency indicators. As a result, operational transparency and the ability for the Governor, Legislators and taxpayers to evaluate the efficiency and effectiveness of Division operations agency indicators was limited because the measures that are currently used were not identified and published as the key agency indicators.

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[1] Key agency indicators are performance measures that identify and measure the key results necessary for an agency to achieve its goals. The Office of State Budget and Management states that key agency indicators should "provide stakeholders, both internal and external to the agency, a clear message of what is important and how the agency is progressing toward achievement in the identified areas."

The Division has not established policies and procedures necessary to ensure that performance data is accurate, complete, and consistent. Specifically, the Division does not have policies and procedures in place to ensure that source data for the performance measures is collected in a consistent manner, errors are not introduced when performance data is processed, and performance measures are reviewed for accuracy and consistency before they are reported. The lack of proper procedures could result in incomplete, inaccurate, and invalid performance data.

RECOMMENDATIONS

Division management should create a written strategic plan that clearly explains how the Division's mission, goals, and strategies are linked to and measured by key agency indicators and other performance measures so that decision-makers will understand how to use the measures and indicators to evaluate the Division's performance. Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement. Management should work with OSBM to update key measures on the OSBM site, require key measures to be reported periodically, monitor the measures, and use the measures in decision making in conjunction with the dashboard measures.

The Division should update and report its key agency indicators to OSBM at least annually so that current information is available for evaluative and decision-making purposes for the Governor, Legislators, and management.

OSBM should enforce its requirement that agencies update key agency indicators annually.

The Division should develop written polices and procedures for performance data collection and processing. The Division should ensure that personnel are properly trained in the data collection and processing procedures. The Division should require management to review the key agency indicators and certify that procedures were followed and that the key agency indicators are complete, accurate, and valid.

AGENCY'S RESPONSE

The Agency's response is included in the appendix.

INTRODUCTION

BACKGROUND

On January 12, 2009, the Governor issued Executive Order No. 3, "On-Site and State-Stat Performance Management and Accountability," to improve program and management performance at state agencies and to maximize efficiency and effectiveness when spending taxpayer dollars. Executive Order No. 3 requires each Cabinet-level department[2] to develop a strategic plan that clearly and concisely states the (1) mission of the department, (2) goals of the department, (3) strategies for achieving department goals, and (4) measures that demonstrate how well the goals are being achieved.

Similarly, the Office of State Budget and Management (OSBM) requires all state agencies to perform strategic planning and identify the agency's mission, goals, and performance measures as part of the State's budget process. OSBM requires this information from state agencies to ensure that the State's budget process encourages efficient and effective government and emphasizes performance and accountability. OSBM also wants to ensure that the State's budget process provides "decision makers with detailed information in order to assess the effectiveness of state programs and to inform the public about state government work and subsequent results."[3]

In compliance with the State's 2008 budget process, the Department of Health and Human Services' Division of Medical Assistance (Division) submitted its mission, goals, and performance measures to OSBM.

The Division's mission is to provide access to medically necessary health care services to eligible North Carolina residents so they can obtain high-value, high-quality health care services resulting ultimately in improved quality of life.

The Division also established goals or steps to achieve its mission. The Division's goals are to:

- Reduce variability and promote best practice standards in health care delivery by utilizing Community Care of North Carolina (CCNC) networks, expanding Medicaid and North Carolina Health Choice (NCHC) recipient enrollment in CCNC, and increasing the use of evidence based clinical practices to improve the quality of health care for Medicaid and NCHC recipients.
- Eliminate unnecessary utilization of services and fraudulent behavior by evaluating, monitoring, and benchmarking all key health care services in order to eliminate wasteful spending in the Medicaid program.

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[2] Executive Order No. 3 encouraged and invited the Board of Governors of the University of North Carolina System, the State Board of Community Colleges, State Board of Education, the Administrative Office of the Courts, and each of the heads of the Council of State agencies to participate in the Executive Order.

[3] OSBM's "Results-Based Budgeting, Preparing for the 2009-11 Biennium," pg. 1.

- Reduce the number of uninsured individuals in the state through the NCHC and Medicaid Programs so that the population served will be healthy and ready to learn and work.

- Provide for the payment of appropriate health care services delivered to disadvantaged North Carolinians to ensure their medical needs are met through system monitoring and testing.

- Provide good customer service to Medicaid providers and recipients through partnerships and collaboration with provider groups to increase access to services and ensure good health care for recipients.

To demonstrate progress in achieving its goals, the Division developed the following three "key agency indicators" *in 2008:*[4]

1. Percentage change in Medicaid enrollment over prior year (unduplicated count)
2. Percentage change in NCHC enrollment over prior year (unduplicated count)
3. Percentage of NCHC eligibles linked to a Carolina Community North Carolina Primary Care Physician

In fiscal year 2010, Division management developed a new set of indicators, dashboard measures, outside of the requirements of OSBM. Management states that these indicators focus on the consumption of resources, recipient costs, and other program specific information by section within the Division. Management also asserts that the indicators can be used to monitor performance, identify trends as they emerge, and report on the achievement of legislated results. The new indicators are reported to OSBM on a monthly basis. However, the original key indicators remained on file as key indicators of the Division and are the focus of this audit.

To achieve its goals and serve the citizens of North Carolina, the Division received about $2.3 billion in state appropriations for fiscal year 2010.

OBJECTIVES, SCOPE, AND METHODOLOGY

The audit objectives were to determine the Department of Health and Human Services - Division of Medical Assistance (Division) has (1) established key agency indicators that have a clear relationship to agency goals, (2) reported accurate, supported performance information to the Office of State Budget and Management (OSBM), and (3) established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently.

The Office of the State Auditor initiated this audit to ensure that the Governor, Legislature, OSBM, and the citizens of North Carolina have accurate and meaningful information to evaluate state agency performance and make budgeting decisions.

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[4] OSBM's "Results-Based Budgeting, Preparing for the 2009-11 Biennium" describe key agency indicators as follows: "Developed in conjunction with an agency's mission statement and linked directly to goals, key indicators provide a big picture gauge of an agency, the work it values, and the progress it will make over the course of the next few years."

The audit scope included key agency indicators reported for state fiscal years 2008 through 2010. OSBM required "agencies to identify up to three" of these key agency indicators. As noted above the Division developed the three "key agency indicators" [5] in 2008 that were the focus of the audit. The dashboard measures used and reported to OSBM by management were not reported as the "key agency indicators" and were not reviewed in this audit as key measures. The audit does refer to the dashboard measures with regards to the third objective as a result of the findings related to objective one and two. We conducted the fieldwork from August 2010 to October 2010.

To determine if the Division established key agency indicators that have a clear relationship to agency goals and accurately reflect the performance being measured, we compared agency indicators to the definition of "outcome-based" measures.[6] We compared agency indicators to strategic plans. We also interviewed agency management, OSBM personnel, General Assembly Fiscal Research Division personnel, and legislative oversight committee members.

To determine if the Division reported accurate, supported performance information to OSBM, we reviewed key agency indicator calculations and supporting documentation.

To determine if the Division established controls that provide reasonable assurance that its performance data is reported accurately, completely, and consistently, we compared agency performance data collection, processing, and reporting practices for three randomly selected program measures to identified data quality assurance best practices.

Because of the test nature and other inherent limitations of an audit, together with limitations of any system of internal and management controls, this audit would not necessarily disclose all performance weaknesses or lack of compliance.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We conducted this audit under the authority vested in the State Auditor of North Carolina by *North Carolina General Statute* 147.64.

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[5] OSBM's "Results-Based Budgeting, Preparing for the 2009-11 Biennium" describe key agency indicators as follows: "Developed in conjunction with an agency's mission statement and linked directly to goals, key indicators provide a big picture gauge of an agency, the work it values, and the progress it will make over the course of the next few years."
[6] The National State Auditors Association states, "Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved."

1. NO CLEAR RELATIONSHIP BETWEEN KEY INDICATORS AND AGENCY GOALS

The Division of Medical Assistance's (Division) key agency indicators, identified in fiscal year 2008, are not meaningful measures of the Division's performance. Specifically, the key agency indicators are not clearly linked to the Division's goals and do not provide a method for the Governor, Legislators, and management to measure the Division's progress in achieving its goals. Additionally, the key agency indicators are not used for decision making by agency management which further suggests that the indicators do not measure Divisional goal-achievement. The lack of a clear relationship between the indicators and agency goals is explained in part by the Division's lack of a written strategic plan.

Division management agrees that the key agency indicators identified in 2008 were deficient and noted that the indicators offered limited operational transparency for the Governor, Legislators, and taxpayers to evaluate the efficiency and effectiveness of Division operations. Division management noted that as a result of this concern they developed a new set of indicators, dashboard measures. Management states that these indicators focus on the consumption of resources, recipient costs, and other program specific information by section within the Division. Management also asserts that the indicators can be used to monitor performance, identify trends as they emerge, and report on the achievement of legislated results. The new indicators are reported to the Office of State Budget and Management (OSBM) on a monthly basis.

Although new indicators have been identified, reported through the Department's site, and reported to OSBM, the original indicators remained posted as the key agency indicators on the OSBM site.

Key Agency Indicators Not Clearly Linked To Goals

Performance measures can help direct and motivate employee behavior toward the achievement of agency goals if the measures are clearly linked to the agency's goals.

Only one of the three key agency indicators, identified in fiscal year 2008, *links* to one of the Division's stated goals. The indicator "Percentage of NCHC eligibles linked to a Carolina Community North Carolina Primary Care Physician" provides information that links to the Division's goal of reducing variability and promoting best practice standards in health care delivery by utilizing Community Care of North Carolina (CCNC) networks.

However, the Division's other two agency indicators are not clearly linked to its stated goals. The indicators may provide some information on the results of the use of state and federal resources such as "Percentage change in Medicaid enrollment over prior year (unduplicated count)" and "Percentage change in NCHC enrollment over prior year (unduplicated count)", but neither of these indicators are clearly linked to the Division's goals of:

- Eliminating unnecessary utilization of services and fraudulent behavior;

- Reducing the number of uninsured individuals in the state through the NCHC and Medicaid Programs;
- Providing for the payment of appropriate health care services delivered to disadvantaged North Carolinians;
- Providing good customer service to Medicaid providers and recipients through partnerships and collaboration with provider groups to increase access to services and ensure good health care for recipients;

The Government Accountability Office (GAO) recommends that agencies link performance measures to agency goals. The GAO states: [7]

> "Performance goals and measures should align with an agency's goals and mission. A cascading or hierarchal linkage moving from top management down to the operational level is important in setting goals agency wide, and the linkage from the operational level to the agency level provides managers and staff throughout an agency with a road map that (1) shows how their day-to-day activities contribute to attaining agency wide goals and mission and (2) helps define strategies for achieving strategic and annual performance goals."

The GAO notes that failure to link performance measures to goals can create behaviors and incentives that do not support organizational goals.

Key Agency Indicators Do Not Measure Goal Achievement

The National State Auditors Association states, "Outcome measures show results of the services provided. Outcome measures assess program impact and effectiveness and show whether expected results are achieved." [8]

Only one of the Division's three key agency indicators, identified in fiscal year 2008, is an outcome measure that clearly measures the Division's success in achieving one of its stated goals. The indicator "Percentage of NCHC eligibles linked to a Carolina Community North Carolina Primary Care Physician" clearly or directly measures the Division's success in reducing variability and promoting best practice standards in health care delivery by utilizing Community Care of North Carolina (CCNC) networks and expanding Medicaid and North Carolina Health Choice (NCHC) recipient enrollment in CCNC.

However, the Division's other two agency indicators are not outcome measures that clearly measure the Division's success in achieving its stated goals. None of the remaining indicators clearly or directly measure the Division's success in:

- Eliminating unnecessary utilization of services and fraudulent behavior;
- Reducing the number of uninsured individuals in the state through the NCHC and Medicaid Programs;

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[7]Government Accountability Office. Report no. GAO-03-0143. November 2002
[8] NSAA. Best Practices in Performance Measurement. 2004

- Providing for the payment of appropriate health care services delivered to disadvantaged North Carolinians;
- Providing good customer service to Medicaid providers and recipients through partnerships and collaboration with provider groups to increase access to services and ensure good health care for recipients.

The state budgeting process requires state agencies to provide outcome-based key indicators. Instructions from OSBM state:

"Key indicators should be outcome-based and inclusive of various programs, activities, and funds in order to provide stakeholders, both internal and external to the agency, a clear message of what is important and how the agency is progressing toward achievement in the identified areas."

The state budget instructions include examples of outcome-based measures such as:

- Employment rate for 13 weeks following training program;
- Annual return on short-term investments;
- Teenage birth rate;
- Percentage of psychiatric hospital patients indicating satisfaction with hospital services;
- Percentage of tested training school residents who passed the GED;
- Percentage of welfare recipients who are employed three months after receiving job training; and
- Elder abuse recidivism rate.

A lack of outcome-based performance measures can prevent decision-makers from determining whether the agency is achieving its goals and whether the agency is effectively achieving the desired social, civic, economic, or environmental impact.

Key Agency Indicators Are Not Used For Decision Making

Performance measures can provide useful information for decision-makers. The National State Auditors Association states, "A good process for developing performance measures would include assessing each performance measure by asking 'Is the measure useful to others [i.e. decision-makers]?' " [9]

The Division's key agency indicators, identified in fiscal year 2008, are not used for decision making by management and legislators which suggests that the indicators may not be useful. Division management did not describe any instances where the key agency indicators were used to make operational or strategic decisions. Additionally, Chairman of the House Appropriations Subcommittee and the Senate Appropriations Committee on Health and Human Services did not describe any instances where the Division's key agency indicators were used to make decisions. However, personnel from the General

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[9] NSAA. Best Practices in Performance Measurement. 2004

Assembly Fiscal Research Division did indicate they used the key indicators "Percentage change in Medicaid enrollment over prior year (unduplicated)" and "Percentage change in NCHC enrollment over prior year (unduplicated) when making budgeting decisions.

Performance measures should be useful for decision-making. The Government Finance Officers Association (GFOA) states, "Performance measures should be monitored and used in managerial decision-making processes."[10] Furthermore, OSBM budget instructions require agencies to develop a set of key agency indicators that "impact and link to budget decisions."

If the performance measures are not useful for decision-making, the Division may waste time and effort collecting the data and calculating the measures. Additionally, the Governor, Legislators, and management may not have the information they need to evaluate the Division's performance and make resource allocation decisions.

No Written Strategic Plan

The Division has not developed a written strategic plan to ensure that key agency indicators, identified in fiscal year 2008, are clearly linked to goals, measure goal-achievement, and are useful for decision making. In part, strategic planning includes preparing a mission statement, agreeing on a small number of broad goals, developing strategies to achieve the goals, creating an action plan, developing measurable objectives, and incorporating performance measures to "provide an important link between the goals, strategies, actions, and objectives stated in the strategic plan." [11]

Strategic planning is a best practice recommended by the GFOA and the Governor of North Carolina. The GFOA recommends that "all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting, thus establishing logical links between authorized spending and broad organizational goals." [12] Furthermore, the Governor's Executive Order No. 3 states:

"Each department shall develop a strategic planning process and continually update a strategic plan in compliance with guidance from the Office of State Budget and Management (OSBM) and the Governor's Policy Office. Departments shall submit their plans annually to OSBM and the Governor's Office. The plans shall include clear, concise, and focused statements of at least the following:

(a) The mission of the department.

(b) The goals of the department.

(c) The strategies for achieving department goals.

(d) Measures that demonstrate how well the goals are being achieved.

(e) A description of the department strategic planning process."

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[10] GFOA. Performance Management: Using Performance Measurement for Decision Making. 2002 and 2007
[11] GFOA. Recommended Budget Practice on the Establishment of Strategic Plans. 2005
[12] GFOA. Recommended Budget Practice on the Establishment of Strategic Plans. 2005

Failure to perform strategic planning and develop a written strategic plan could prevent a state agency from effectively and efficiently fulfilling its mission, achieving its goals, and serving the citizens of North Carolina.

Recommendation: Division management should create a written strategic plan that clearly explains how the Division's mission, goals, strategies, are linked to and measured by the key agency indicators and other performance measures so that decision-makers will understand how to use the measures and indicators to evaluate the Division's performance. Management should review and approve key agency indicators to ensure they are outcome-based and measure goal achievement. Management should work with OSBM to update key measures on the OSBM site, require key measures to be reported periodically, monitor the measures, and use the measures in decision making in conjunction with the dashboard measures.

2. No Key Agency Indicators Reported For Two State Fiscal Years

The Division of Medical Assistance (Division) did not report updated figures about key agency indicators identified in 2008 to the Office of State Budget and Management (OSBM) for state fiscal years 2008-09 and 2009-10. It should also be noted that OSBM did not enforce its reporting requirement.

Division management chose not to continue to report on the three key indicators previously identified to OSBM in Fiscal Year 2008. Management recognized that these indicators did not represent the performance of the Division but rather a use of the Division's resources.

During the period under review, the Division created a dashboard report. The dashboard report identifies a significant number of indicators related to the many programs and sections within the Division and is provided to OSBM on a monthly basis. Although the dashboard reports with these measures were available on the Departments website the indicators identified in 2008 continued to be posted on the OSBM's website as the key agency indicators. As a result, operational transparency and the ability for the Governor, Legislators and taxpayers to evaluate the efficiency and effectiveness of Division operations agency indicators was limited because the measures that are currently used were not identified and published as the key agency indicators.

Key agency indicators provide important information to the Governor, Legislators, and management so that they can understand the agency's goals and evaluate agency performance. The state budgeting instructions require agencies to identify up to three key indicators and define the purpose of key indicators:

"Developed in conjunction with an agency's mission statement and linked directly to goals, key indicators provide a big picture gauge of an agency, the work it values, and the progress it will make over the course of the next few years."

Failure to report on key agency indicators limits operational transparency and the ability of the Governor, Legislators and taxpayers to evaluate the efficiency and effectiveness of Division operations.

Recommendation: Management should work with OSBM to update key measures on the OSBM site, require key measures to be reported periodically, monitor the measures, and use the measures in decision making in conjunction with the dashboard measures.

OSBM should enforce its requirement that agencies update key agency indicators annually.

3. Controls Do Not Ensure Accurate, Complete, And Consistent Data

Although the Division of Medical Assistance (Division) did not report updated information on key agency indicators originally identified in 2008 for fiscal years 2008-09 and 2009-10, agency management did report a significant number of measures related to the many programs and sections within the Division through the dashboard report.

The Division has not established policies and procedures necessary to ensure that performance data included in the Dashboard Report is accurate, complete, and consistent. Specifically, the Division does not have policies and procedures in place to ensure that (1) source data for the dashboard measures is collected in a consistent manner, (2) errors are not introduced when performance data is processed, and (3) dashboard measures are reviewed for accuracy and consistency before they are reported.

Performance Data Collection

The Division does not have policies and procedures in place to ensure that the source data for the dashboard measures is collected in a consistent manner. Specifically, the Division does not have:

- Written procedures and methodology for collecting performance data for the three dashboard measures reviewed;
- Review procedures to ensure adherence to data collection procedures for the three dashboard measures reviewed; and
- Documented staff training in proper data collection procedures for one of the three dashboard measures reviewed.

The Government Accountability Office recommends that government agencies clearly document internal controls[13], review and validate the propriety and integrity of performance measures and indicators, and ensure employees are properly trained to perform assigned tasks.

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[13] Government Auditing Standards state, "Internal control, sometimes referred to as management control, in the broadest sense includes the plan, policies, methods, and procedures adopted by management to meet its missions, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It includes the systems for measuring, reporting, and monitoring performance."

Furthermore, state budget instructions imply that an agency should have policies and procedures in place to ensure consistent performance data collection. The state budget instructions require, "An agency's measures should be consistent over time so that the data presented are easy to compare from year to year."

If source data is not collected in a consistent manner from period to period, the results may not be comparable and may not be legitimate.

Performance Data Processing

The Division does not have policies and procedures in place to ensure that errors are not introduced in the performance measurement process when data is entered, transcribed, or transferred during the reporting process. Specifically, the Division does not have:

- Written procedures and methodology for entering performance data for one of the three dashboard measures reviewed;
- Written procedures for checking data for obvious inaccuracies, checking data consistency, and checking data against source documents for the three dashboard measures reviewed; and
- Documented staff training in proper data entry procedures for one of the three dashboard measures reviewed.

The Government Accountability Office recommends that government agencies clearly document policies and procedures and ensure employees are properly trained to perform assigned tasks.

Furthermore, state budget instructions require, "Data for performance indicators should be accurate, on file, and auditable."[14]

Without written procedures and trained staff, reported performance measurement information may be incomplete, inaccurate, and invalid.

Performance Data Reporting

The Division does not have policies and procedures in place to ensure that performance data is reported accurately. Specifically, the Division does not:

- Require responsible officials to certify that proper procedures were followed in collecting and calculating the three dashboard measures reviewed; and
- Require responsible officials to certify that data accuracy has been checked before being reported.

State budget instructions require data for performance indicators to be accurate.[15]

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[14] OSBM's "Results-Based Budgeting, Preparing for the 2009-11 Biennium," pg. 26.
[15] OSBM's "Results-Based Budgeting, Preparing for the 2009-11 Biennium, "pg. 26.

Requiring responsible officials to certify that proper procedures were followed and that data accuracy was checked will help ensure that performance measurement information is complete, accurate, and valid.

Recommendation: The Division should develop written polices and procedures for performance data collection and processing. The Division should ensure that personnel are properly trained in the data collection and processing procedures. The Division should require management to review the dashboard measures and certify that procedures were followed   and   that   the   dashboard   measures   are   complete,   accurate,   and   valid.

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PLANNING PROCESS MODEL

The diagram below details the recommended planning process for North Carolina state government.

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                  │      Planning Process Model for              │
                  │   North Carolina State Government            │
                  └─────────────────────────────────────────────┘

                        ┌──────────────────────┐      ┌──────────────────────────┐
                        │   Set the mission     │ ───> │    Why do you exist?      │
   ┌──────────┐         └──────────────────────┘      └──────────────────────────┘
   │ Where are│  {
   │ we now?  │         ┌──────────────────────┐      ┌──────────────────────────┐
   └──────────┘         │ Assess environmental │ ───> │ What are your greatest    │
                        │      factors         │      │ strengths, weaknesses,    │
                        └──────────────────────┘      │ opportunities, and threats?│
                                                       └──────────────────────────┘

                        ┌──────────────────────┐      ┌──────────────────────────┐
                        │ Develop a vision      │ ───> │ What is your ideal future │
                        │ statement and a set of│      │ state and what will guide │
                        │ values (optional)     │      │ your actions?             │
                        └──────────────────────┘      └──────────────────────────┘
   ┌──────────┐
   │ Where do │  {      ┌──────────────────────┐      ┌──────────────────────────┐
   │ we want  │         │ Establish broad goals │ ───> │ What is most important to │
   │ to be?   │         │ and develop objectives│      │ achieve over the next few │
   └──────────┘         └──────────────────────┘      │ years?                    │
                                                       └──────────────────────────┘

                        ┌──────────────────────┐      ┌──────────────────────────┐
                        │ Set performance       │ ───> │ What data will tell you   │
                        │ measures and establish│      │ whether you are           │
                        │ targets               │      │ accomplishing your goals? │
                        └──────────────────────┘      └──────────────────────────┘

   ┌──────────┐         ┌──────────────────────┐      ┌──────────────────────────┐
   │ How do we│  {      │ Develop program       │ ───> │ What specific actions need│
   │ get there?│        │ performance plans     │      │ to take place at the      │
   └──────────┘         └──────────────────────┘      │ program level to accomplish│
                                                       │ agency goals?             │
                                                       └──────────────────────────┘

   ┌──────────┐         ┌──────────────────────┐      ┌──────────────────────────┐
   │ How do we│  {      │ Implement the plan,   │ ───> │ What data will tell you   │
   │ evaluate │         │ report progress, and  │      │ whether you are           │
   │ our      │         │ make adjustments      │      │ accomplishing your goals? │
   │ progress?│         └──────────────────────┘      └──────────────────────────┘
   └──────────┘
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Source: OSBM's "Planning Guidelines for North Carolina State Government – March 2010", pg. 5.

We are required to provide additional explanation when an agency's response could potentially cloud an issue, mislead the reader, or inappropriately minimize the importance of our findings.

Generally Accepted Government Auditing Standards state,

> When the audited entity's comments are inconsistent or in conflict with the findings, conclusions, or recommendations in the draft report, or when planned corrective actions do not adequately address the auditor's recommendations, the auditors should evaluate the validity of the audited entity's comments. If the auditors disagree with the comments, they should explain in the report their reasons for disagreement.

To ensure the availability of complete and accurate information and in accordance with Generally Accepted Government Auditing Standards, we offer the following clarifications:

In response to the report the Division response contends that the auditor's findings *"contain inaccuracies and misrepresent the status of indicators used by the Division…"* as the audit report focuses on indicators developed in 2007 and does not focus on and acknowledge the achievements of the more recently developed Dashboard Report.

It is important for readers of this report to understand that this audit focuses on key agency performance indicators because key indicators provide a limited number of critical results for the Governor, Legislators, and citizens to understand the Division's achievements in relation to their budget. The Dashboard Report cited by the Division does not provide key agency indicators. Instead, it overwhelms readers with an avalanche of detailed information that provides no "big picture" overview of how the Division is performing.

Both the National Conference of State Legislators (NCSL) and the Government Accounting Standards Board (GASB) encourage the use of key indicators. In a report titled 'Five Actions to Enhance State Legislative Use of Performance Information' the NCSL states that key measures bring attention to important agency performance information. The report goes on to say "Key results, limited to a few … direct legislative attention to policy and program outcomes of greatest interest and importance to citizens."

GASB guidelines for preparing performance information note "that an effective Performance report contains a limited number of measures in order to focus on information that is essential for assessing the level of performance of a government's programs and services in comparison to what it had planned to achieve."

Office of State Budget and Management (OSBM), the agency responsible for initiating and implementing the Governor's Executive Order Number 3, offers a definition for key indicators that is similar to the NCSL and GASB and then directs agencies to identify *up to three* key agency indicators.

The Dashboard Report cited by the Division presents over 300 measures of information without guidance or instruction as to their meaning. The Report also refers to a series of 118 charts. (See Dashboard Summary and Charts starting on page 29.)

As a result, to refer to the Dashboard Report in this audit would have been misleading as it does not provide key indicators about the Division's progress and results for the Governor, Legislators, program administrators, and citizens. Division management noted in their response that they created the report "to manage performance, identify trends and monitor Medicaid budgetary changes" and that the report is used by their managers, DHHS Managers, OSBM, and Fiscal Research.

In fact, the Division's Chief Financial Officer (CFO) agreed in an e-mail communication that the indicators in the Dashboard Report are not key indicators intended for the public and other types of users. (See Dashboard Summary and Charts starting on page 29.) The CFO noted:

> We are moving toward global/key indicators… The final stage is the public. The importance of information to the public is understood, but the reality is we are in an evolution of information, putting into place information and measures that never existed before… The end point is what I think you keep asking about, the trek to achieving that is a process that we are earnestly engaged in achieving. We are not there yet, but I think that the work of the last year moves us ever closer to where we all want to be.

The State Auditor recognizes the need to maintain this level of detailed information to manage the organization and ensure goal achievement; however, there is also a need and requirement to provide "big picture" data, which this report notes has not been achieved

The Division goes on to say that "*the auditors did not demonstrate an understanding of the comprehensive DMA indicators that have been developed, the use of said indicators or the methods by which similar health insurance enterprises measure performance.*" Several other state Medicaid or health and human service agencies including Colorado, Oregon, Virginia, Florida and Texas have provided a set of key indicators that fall within the definition of NCSL and GASB. On average each state noted developed 25 key indicators for their respective comparable agency. Although there are 25 indicators on average being reported, this is far fewer than the hundreds reported in the Dashboard Report. If the Division does need to exceed the three recommended indicators, the Division should discuss presentation of the identified key indicators with OSBM.

Also, the Division contends that "*…the appropriateness and utility of the recommendations in this report are quite limited in their ability to assist DMA management in attaining more effective operations and administration*". The reader should consider that the recommendations that the Division contends are "limited" are all based on the requirements set forth in the Governor's Executive Order Number 3, policies set forth by OSBM to implement the Governor's plan, and performance management best practices.

We agree with the Division that the statement, the "Division did not <u>calculate</u> the amounts of the key agency indicators" in fiscal years 2008-09 and 2009-10 on page 1 is incorrect. That statement should read that the Division did not <u>report</u> the key agency indicators in those years and have corrected the report accordingly.

Finally, the Division notes that *"if auditors take issue with OSBM's reporting on their website, then the report should be addressed to OSBM, and not directed at the Department in statements that question or imply a lack of transparency or accountability by DMA management."* There is a recommendation in the report to the OSBM and Division Management as both the Division and Management need to have procedures in place to ensure accurate and up to date information is available to achieve the Governor's goal of transparency and accountability. Other reports similar in scope identified the need for the same recommendation. As a result, an audit of the OSBM regarding performance management was initiated and the results of that audit will be released shortly.

The Governor, Legislators, and the citizens of North Carolina should consider the clarification provided above when evaluating the Division of Medicaid's response to the audit findings.

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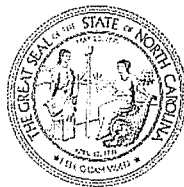
North Carolina Department of Health and Human Services
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Tel: 919-733-4534 • Fax: 919-715-4645

Beverly Eaves Perdue, Governor   Lanier M. Cansler, Secretary

April 25, 2011

The Honorable Beth A. Wood, State Auditor
Office of the State Auditor
2 South Salisbury Street
20601 Mail Service Center
Raleigh, North Carolina 27699-0601

Dear Ms. Wood:

We reviewed your report on the findings and recommendations that resulted from fieldwork on the performance audit titled *"Department of Health and Human Services – Division of Medical Assistance – Key Agency Indicators"*. The following represents the response to the Audit Findings and Recommendations.

Agency Response

General Comments

In general, the findings from the performance audit contain inaccuracies and misrepresent the status of key indicators used by the Division of Medical Assistance (DMA) management. Thus, the appropriateness and utility of the recommendations in this report are quite limited in their ability to assist DMA management in attaining more effective operations and administration for the reasons enumerated below.

First, the report focuses almost exclusively on audit findings/recommendations related to an old set of indicators (developed in 2007) as part of the resource-based budgeting process which was subsequently posted on the Office of State Budget and Management's (OSBM's) website. The report's stated audit period was for state fiscal years (SFY) 2008 through 2010, yet there were minimal references to the new extensive system of indicators developed by DMA management and used by DHHS management, OSBM and the General Assembly Fiscal Research Division (FRD) in SFY 2009 and 2010 to manage performance, identify trends and monitor Medicaid budgetary changes mandated by the North Carolina Legislature.

Instead, the audit report repeatedly argues that the indicators developed three years ago in 2008 are *"not meaningful measures of ...performance"* and *"not clearly linked to the Division's goals and do not provide decision makers such as the Governor, Legislature, Office of State Budget and Management and Division management to measure the Division's progress toward achieving its goals."*

DMA fully acknowledges and agrees with the auditors' statements as they relate to the three measures developed in 2007. However, and more importantly, DMA believes the auditors do a disservice to the Division of Medical Assistance and the people of North Carolina by:

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      1) Not fully understanding the business audited and reported on,

      2) Not fully discussing in the report the key indicators used by DMA, DHHS, OSBM and FRD, and

      3) Ignoring the reality of the State's economic environment and the need to implement "real time" alternatives to manage the State's financial resources in a time of financial peril instead of using three year old criteria posted on OSBM's website.

To expand, the auditors did not demonstrate an understanding of the comprehensive DMA indicators that have been developed, the use of said indicators or the methods by which similar health insurance enterprises measure performance. Understanding the intricacies and complexities of Medicaid is not an overnight process for anyone. Furthermore, important business environmental factors the auditors chose to ignore and failed to report on included:

- Five different individuals served as State Medicaid Director during the period from 2007 through 2010.
- Beginning in SFY 2009, the State of North Carolina experienced unprecedented budgetary shortfalls requiring all available management resources be redirected to ensure that North Carolina could sustain a constitutionally required balanced budget.
- The Legislature voted to eliminate the assignment of children to a CCNC physician beginning in October 2009. (This had direct implications on the third indicator--% of NCHC eligibles linked to a CCNC physician.)

The audit report presents DMA goals from 2007 in an apparent attempt to demonstrate the lack of connection of the key performance indicators and measuring the achievement of those goals.

The Department acknowledges the three indicators developed in 2007 (% change in Medicaid enrollment, % change in NCHC enrollment and % of NCHC eligibles linked to a CCNC physician) do not provide a basis to measure the achievement of these goals. However, the indicators initiated by DMA management in 2009 are precisely aimed at measuring the achievement of those goals. The goals included in the report were to:

    1)   Reduce variability and promote best practice standards in health care delivery by utilizing CCNC networks, expanding Medicaid and NCHC recipient enrollment in CCNC and increasing the use of evidence based clinical practices to improve the quality of health care for Medicaid and NCHC recipients.

    2)   Eliminate unnecessary utilization of services and fraudulent behavior by evaluating, monitoring and benchmarking all key health care services in order to eliminate wasteful spending in the Medicaid program.

    3)   Reduce the number of uninsured individuals in the state through the NCHC and Medicaid programs so that the population service will be healthy and ready to learn and work.

    4)   Provide for payment of appropriate health care services delivered to disadvantaged North Carolinians to ensure their medical needs are met through system monitoring and testing.

    5)   Provide good customer service to Medicaid providers and recipients through partnerships and collaboration with provider groups to increase access to services and ensure good health care for recipients.

Since the report fails to acknowledge the Division's achievements with regards to this issue, it is important for the Department to point out both the breadth and depth of the indicators DMA initiated in SFY 2009, as well as their connection to the Division's goals, operations, management and decision-making. The indicators initiated in SFY 2009 evolved from several sources including:

- management's need to have indicators beyond the aggregate spending and enrollment to effectively operate a $10 billion insurance concern,
- the mandate by management, the Department, the Governor and the Legislature to monitor and report on the major program and service changes necessitated in response to the slowing State economy in a program that represent 1/6th of the dollars spent by North Carolina State government,
- the need for an effective communication tool for DMA management to utilize to document the status of performance and the impact of service and program changes,
- the imperative need to establish an "early warning" mechanism to identify trends so appropriate management action could be taken to correct deviations from planned budgeted results, and
- the need to simplify the performance of a very complex program that is comprised of over 1,400,000 recipients, 85 categories of service in 15 different program aid categories and 14 different Community Care of North Carolina (CCNC) networks.

In general, the indicators initiated in SFY 2009 were included in a performance "Dashboard" (See Sample Dashboard attached). This Dashboard analysis was structured to include a one-page financial summary that reported overall Medicaid spending relative to the budget, elements driving costs at a macro level, enrollment compared to current budget and prior years' data and compliance with Federal prompt filing requirements under ARRA.

The financial summary also presented each major category of Medicaid service grouping, each area where major budget changes were implemented, the per member per month (PMPM) costs, the number of recipients per 1,000 enrollees (utilization measure) and the cost per recipient compared to budget and prior years.

In order to ensure appropriate management information to monitor trends and results in all the major medical services provided to recipients and progress toward the achievement of initiatives mandated by the Legislature in the annual Medicaid budget and operating plan, the Dashboard incorporated an extensive number of graphs to support planning, operations, and trending for decision-making. (Again, see sample attached.)

The graphs included in the dashboard, along with the goals measured as referenced in the State Auditor's report, are presented below:

	CHARTS	*GOAL(S) MEASURED*
1)	Enrollment	3
2)	Community Support – Total	2,4
3)	Community Support – Children	2,4
4)	Community Support – Adults	2,4
5)	Community Support – Team	2,4
6)	Enhanced Services	2,4
7)	ICF – MR	2,4
8)	Inpatient Psychiatric Services	2,4
9)	Intensive In-home Services	2,4
10)	General Case Management	2,4
11)	HIV Case Management	2,4
12)	Long Term Care	2,4
13)	Personal Care	2,4
14)	Pharmacy – Total Medicaid	2,4

	CHARTS (cont.)	***GOAL(S) MEASURED (cont.)***
15)	Pharmacy – CCNC Separate	1,2,4
16)	Group Homes	2,4
17)	Durable Medical Equipment	2,4
18)	Emergency Services	2,4
19)	Emergency Services – CCNC compared	1,2,4
20)	Outpatient Services – Total Medicaid	2,4
21)	Outpatient Services – CCNC Separate	1,2,4
22)	Inpatient Hospitalization – Total Medicaid	2,4
23)	Inpatient Hospitalization – CCNC Separate	1,2,4
24)	Physician Services – Total Medicaid	2,4
25)	Physician Services – CCNC Separate	1,2,4
26)	Children's Dental Services	1,2,4
27)	Adult Dental Services	1,2,4
28)	Dental Sealants	1,2,4
29)	Managed Care Enrollment	1,3,4
30)	Adult Wellcare	1
31)	Preventable Readmissions	1
32)	CCNC Emergency Dept/1,000 enrollees	1
33)	Program Integrity – Third Party liability	4
34)	Program Integrity –Home Care Review	2,4
35)	Program Integrity – Behavioral Health Review	2,4
36)	Program Integrity – Medical Review	2,4
37)	Program Integrity – Pharmacy Review	2,4
38)	Program Integrity – Special Projects Review	2,4
39)	Enrollment, Verification and Credentialing	5

Further, DMA management met routinely with service provider associations, the Medicaid Advisory Committee and the Physician Advisory Group to present and discuss dashboards. These forums also served to generate input into planning and feedback on operations.

Internally, the Dashboard reports were distributed to the DMA Assistant Directors (AD) and reviewed at the AD meetings on a monthly basis. The reports were also shared and reviewed with the Department's Executive Management team monthly, provided to OSBM and posted on the DMA website for public viewing.

Specific Comments on the Office of State Auditor Performance Audit

Page 1   The statement the *"Division did not calculate the amounts of the key agency indicators"* in SFY's 2008-09 through 2009-10 is incorrect. DMA did not provide the indicators developed in 2008 as a separate report. Enrollment information was provided in the monthly Dashboard. Health Choice enrollment trends were included in the monthly management report provided to DHHS, OSBM and FRD and the percentage of Health Choice recipients assigned to a CCNC physician would have been moot after October 2009, when the Legislature removed payment for this service and children were not assigned to a CCNC physician.

DMA did in fact calculate a variety of key agency indicators during the period audited. This information was provided to the Office of State Auditor staff during their field work.

Page 1   The audit report states that "*Although the dashboard reports with these measures were available on the Departments website, the indicators identified in 2008 continued to be posted on the OSBM's website as the key agency indicators. As a result, operational transparency and the ability for the Governor, Legislators and taxpayers to evaluate the efficiency and effectiveness of Division operations agency indicators was limited because the measures that are currently used were not identified and published as the key agency indicators.*" This statement is misleading and does not present a complete picture to the reader of the report. The audit report fails to acknowledge in any way the breadth of distribution of the Dashboard management reports and indicators to the Division, Department, OSBM, FRD, provider associations and the Public.

Note: If auditors take issue with OSBM's reporting on their website, then the report should be addressed to OSBM, and not directed at the Department in statements that question or imply a lack of transparency or accountability by DMA management.

Page 2   The Division agrees that it has not established written policies and procedures on the dashboards. However, it is important to note that the Dashboards were and are reviewed in detail by the Chief Business Operating Officer prior to their distribution and are prepared by the same professional staff on a monthly basis. The Division will develop written policies and procedures for performance data collection, processing and reporting. The Division expects to have these policies and procedures formally documented by June 30, 2011.

Page 4   The audit report states "*To demonstrate progress in achieving its goals, the Division developed the following three "key agency indicators" in 2008:*[4]

1. *Percentage change in Medicaid enrollment over prior year (unduplicated count)*

2. *Percentage change in NCHC enrollment over prior year (unduplicated count)*

3. *Percentage of NCHC eligibles linked to a Carolina Community North Carolina Primary Care Physician*"

This grossly misleads the reader to believe that DMA used these measures to measure performance and outcomes relative to the 5 goals stated in the report. Information included on pages 3 and 4 of this response details the actual indicators that were implemented and used by DMA management to demonstrate progress toward achieving goals.

Further, the audit report's brief reference to the Dashboard fails to provide adequate information to the reader regarding DMA management's oversight, monitoring or use of the indicators. In response to the State's economic situation, the Legislatively mandated changes and DMA's recognization that operating a $10 billion insurance program for 1.4 million North Carolinians required a new approach, DMA management calculated and reported on a significant number of Division and program-related indicators to the DHHS and OSBM on a monthly basis in the Dashboard report.

This report was posted on the Division's website for the public, the Fiscal Research Division of the General Assembly (FRD) and members of the Legislature. The Dashboard report identified measures or sets of measures as key indicators of the Division at multiple levels. Specifically, the Dashboard reported the high level results of overall expenditures and enrollment compared to budget and prior periods, along with the macro factors of volume, mix, consumption and other factors that contribute to variations in actual expenditures and budget.

The Dashboard reports were supplemented by numerous program related trend measures for key Division services and areas where results were programmed to be achieved based on the legislatively approved budget and operational plan.

Page 5   The statements in the audit, *"The audit scope included key agency indicators reported for state fiscal years 2008 through 2010. OSBM required "agencies to identify up to three" of these key agency indicators. As noted above the Division developed the three "key agency indicators" [5] in 2008 that were the focus of the audit. The dashboard measures used and reported to OSBM by management were not reported as the "key agency indicators" and were not reviewed in this audit as key measures. The audit does refer to the dashboard measures with regards to the third objective as a result of the findings related to objective one and two"* misrepresent the time DMA management spent in meetings describing the performance indicators to the auditors, the amount of information provided to the auditors and the auditors' review and audit of the indicators.

Page 6   Consistent with prior presentation, the audit continues to make reference to the development of a *"new set of indicators"*, but discusses only the issue of indicators posted on the OSBM website and fails to complete the discussion about DMA's use and reporting of **real** indicators.

The Division developed and implemented a detailed set of agency indicators that were meaningful to measure performance report results, all in context with the five goals previously mentioned. The Dashboard reports were constructed to present a one page summary, followed by a series of program specific charts of performance and trends. The one page summary presented high level results for expenditures and enrollment, compared to targets and prior periods. The one page summary also presented results for key program performance at an overall expenditure level, utilization or consumption of resources level and recipient cost level. Each level was compared to budget or target and prior periods.

Review and analysis of Dashboard reports afforded management the ability to monitor performance identify trends as they emerged, make informed management decisions and report on the achievement of legislated results. In order to provide a more comprehensive and focused review, the Dashboards included program specific trend analyses, information on network performance and clinical treatment indicators, performance of program integrity efforts and provider enrollment functions and satisfaction measures of enrollment.

Page 7   The report states that *"Only one of the Division's three key agency indicators, identified in fiscal year 2008, is an outcome measure that clearly measures the Division's success in achieving one of its stated goals. The indicator "Percentage of NCHC eligibles linked to a Carolina Community North Carolina Primary Care Physician" clearly or directly measures the Division's success in reducing variability and promoting best practice standards in health care delivery by utilizing Community Care of North Carolina (CCNC) networks and expanding Medicaid and North Carolina Health Choice (NCHC) recipient enrollment in CCNC.".* However, the report omits the important fact that the Legislature eliminated the payment of a PMPM to CCNC to provide care management for these children effective October 2009. Such a significant omission may discredit the timeliness and usefulness of the information reported.

In addition, the Department would like to emphasize the fact that the Dashboard measures developed and implemented directly measured the results in eliminating unnecessary utilization of services at a specific program level, the results of CCNC's enrollment of

recipients and key health care indicators, the trends and comparisons of appropriate payment and customer service to the 70,000 providers enrolled in Medicaid.

Page 8   The paragraph that states, *"The state budget instructions include examples of Outcome-based measures such as:*

- *Employment rate for 13 weeks following training program;*
- *Annual return on short-term investments;*
- *Teenage birth rate;*
- *Percentage of psychiatric hospital patients indicating satisfaction with hospital services;*
- *Percentage of tested training school residents who passed the GED;*
- *Percentage of welfare recipients who are employed three months after receiving job training; and*
- *Elder abuse recidivism rate.*

A lack of outcome-based performance measures can prevent decision-makers from determining whether the agency is achieving its goals and whether the agency is effectively achieving the desired social, civic, economic, or environmental impact. " is correct as a stand-alone assertion; however, these are examples of single function service operations compared to a complex enterprise such as Medicaid, which provides health insurance to 1.4 million North Carolinians, categorized into 15 different program aid groups, receiving 85 different types of services through 15 different networks across the State.

The Dashboards implemented by DMA management recognize the complexity of Medicaid as an enterprise, the fact that it is not a service provider, but rather an insurer of services representing $1/6^{th}$ of the state's budget overall economic environment and an entitlement which necessitates measures of control that are not equivalent or similar to other state agencies. The magnitude and scope of an operation such as Medicaid requires a complex series of indicators, monitored monthly and evaluated constantly to ensure that all goals are met, people receive needed health care and state resources are managed effectively.

Page 8   The report repeatedly includes the statement that *"The Division's key agency indicators, identified in fiscal year 2008".* While this does clarify the reference to the statements that follow in the report being about those indicators, the Department takes issue with the absence from the report of a discussion of the actual indicators used during the audit period, especially at the end of the audit period since that would logically be the basis for making constructive recommendations for the future.

Page 8   The statement in the report that the Division's key agency indicators identified in 2008 were not used for decision-making by management and legislators during the period audited incorrectly implies that the Department did not have any useful indicators at that time. The Department would like to reiterate that during the audit process, Division management did present and describe to the auditors the indicators implemented in 2009. These indicators were reviewed, tested and then used to make operational and/or strategic decisions. In addition, personnel from the General Assembly Fiscal Research Division indicated they used the 2008 key indicators "Percentage change in Medicaid enrollment over prior year (unduplicated)" and

"Percentage change in NCHC enrollment over prior year (unduplicated)" when making budgeting decisions. These indicators were reported by DMA in their dashboard and monthly Health Choice management report.

Page 9   In response to the third paragraph regarding the necessity of performance measures useful for decision-making, DMA states the Dashboard measures were introduced in 2009 for this very reason.

Page 9   The Division has not developed a written strategic plan specific to the Division to ensure that key agency indicators are clearly linked to goals, measure goal-achievement, and are useful for decision-making. Instead, Division management integrated its management planning and Dashboard reporting into the DHHS EXCELS initiative, implemented by the Department, which directs the goals, strategies and operations throughout the Department.

Page 10   To repeat, if the auditors take issue with the absence of updated key agency indicators on OSBM's website, then the report should address that fact and not make statements that improperly questions or implies a lack of transparency or accountability by DMA.

Page 10   The Division of Medical Assistance (Division) did not report on the key agency indicators identified in 2008 to the Office of State Budget and Management (OSBM) for state fiscal years 2008-09 and 2009-10. It should also be noted that OSBM did not enforce its reporting requirement for these outdated measures.

Instead the Division provided OSBM with the Dashboard measures on a monthly basis for fiscal years 2008-09 and 2009-10 and continues to do so.

Division management did not report on the three key indicators previously identified to OSBM in Fiscal Year 2008 since management recognized that these indicators did not represent the performance of the Division but rather a macro use of the Division's resources.

Alternatively, during the period under review, the Division of Medical Assistance created a Dashboard report. As previously described in this response, the Dashboard report identifies a significant number of indicators related to the many programs and sections within the Division and was provided to OSBM on a monthly basis. The Dashboard report identifies measures or sets of measures as key indicators of the Division on multiple levels as previously discussed.

Page 11   The Department acknowledges the Division of Medical Assistance (Division) did not report key agency indicator data for measures identified in 2008 during fiscal years 2008-09 and 2009-10. However, Division management did report, on an even more comprehensive basis, during that time a significant number of measures related to the many programs and sections within the Division through a report called the Dashboard Report.

The Division agrees that it has not established written policies and procedures on the dashboards. However, it is important to note that the Dashboards were and are reviewed in detail by the Chief Business Operating Officer prior to their distribution and are prepared by the same professional staff on a monthly basis. The Division will develop written policies and procedures for performance data collection, processing and reporting. The Division expects to have these policies and procedures formally documented by June 30, 2011.

All told, the Department values audits that focus on current management business processes as opposed to focusing on outdated information. As such, recommendations regarding current management activities are much more likely to be useful and practical than recommendations involving outdated indicators no longer in use.

If you need any additional information please contact Monica Hughes at (919) 855-3720.

Sincerely,

Lanier M. Cansler

Attachment: Sample Dashboard Report

LMC:mh

cc: Dan C. Stewart, CPA
    Michael Watson
    Maria Spaulding
    Eddie Berryman, CPA
    Laketha M. Miller, CPA

MEDICAID FINANCIAL DASHBOARD - JUNE 2010

	Expenditures	Volume Variance	Mix Variance	Consumption	Other	Actual PMPM	Exp PMPM
Forecast	$ 10,183,991,946	$ 33,518,342	$ (4,224,742)	$ 419,857,770	$ 280,336,939	$ 595.68	$ 525.47
Average Claim Processing Time	99% processed within 21 days		% of Claims processed electronically			96%	

	Actual PMPM	Planned PMPM	% Var	2010 Budget	2009 PMPM	Actual Util/1,000	Planned Util/1,000	% Var	2009 Util/1,000	Actual Mthly Cost/Recip	Planned Mthly Cost/Recip	% Var	2009 Cost/Recip
Foundation													
Physicians	$ 75.24	$ 62.20	21%	$ 62.20	$ 72.59	843.8	818.3	3%	816.3	$ 89.17	$ 78.69	13%	$ 84.17
Dental	$ 21.20	$ 17.40	22%	$ 17.40	$ 20.63	80.3	75.7	6%	75.5	$ 263.86	$ 213.61	24%	$ 258.78
Brand Drugs	$ 48.94	$ 43.29	13%	$ 43.29	$ 54.64	71.4	72.2	-1%	72.1	$ 520.85	$ 502.03	4%	$ 512.01
Generic Drugs	$ 13.45	$ 13.85	-3%	$ 13.85	$ 10.43	153.3	154.4	-1%	154.0	$ 61.35	$ 65.81	-7%	$ 52.51
Practitioners - Other	$ -	$ -		$ -	$ -								
Short Term Medical													
Inpatient	$ 65.01	$ 55.99	16%	$ 55.99	$ 69.38	19.7	17.4	13%	17.4	$ 3,302.21	$ 3,127.73	6%	$ 3,497.58
Emergency	$ 17.49	$ 12.58	39%	$ 12.58	$ 16.37	54.4	52.6	3%	52.5	$ 321.41	$ 216.79	48%	$ 298.35
Outpatient	$ 19.28	$ 21.67	-11%	$ 21.67	$ 19.64	69.2	67.9	2%	68.6	$ 278.66	$ 343.01	-19%	$ 368.86
Hospice	$ 3.72	$ 4.26	-13%	$ 4.26	$ 3.74	1.0	1.0	5%	1.0	$ 3,547.33	$ 3,822.54	-7%	$ 3,615.90
Home Health/DME	$ 16.71	$ 14.86	12%	$ 14.86	$ 17.44	50.8	50.7	0%	50.6	$ 329.18	$ 254.68	29%	$ 317.00
Imaging	$ 8.00	$ 6.75	19%	$ 6.75	$ 7.34								
All Other	$ 9.72	$ 5.33	82%	$ 5.33	$ 9.88								
Behavioral Health													
Inpatient	$ 5.93	$ 3.65	62%	$ 3.65	$ 4.35	0.5	0.4	12%	0.4	$ 12,278.90	$ 8,287.21	48%	$ 9,060.23
CAP MR	$ 29.13	$ 28.13	4%	$ 28.13	$ 29.94	6.7	6.7	-1%	6.6	$ 4,358.22	$ 3,730.53	17%	$ 4,085.86
Clinics	$ 8.00	$ 8.13	-2%	$ 8.13	$ 8.38	14.6	14.1	3%	13.8	$ 548.80	$ 523.56	5%	$ 544.43
Group Homes	$ 5.52	$ 5.66	-2%	$ 5.66	$ 10.59	0.9	1.2	-26%	1.4	$ 6,192.69	$ 5,792.20	7%	$ 6,792.14
ICF MR	$ 28.74	$ 30.14	-5%	$ 30.14	$ 29.59	2.7	2.6	3%	2.6	$ 10,540.77	$ 10,277.36	3%	$ 11,219.71
Practitioners - CS	$ 54.59	$ 38.83	41%	$ 38.83	$ 55.44	49.6	51.8	-4%	51.9	$ 884.50	$ 735.15	20%	$ 1,051.62
All Other	$ -	$ -		$ -	$ -					$ -	$ -		$ -
Long Term/Residential													
Nursing Homes	$ 71.86	$ 68.50	5%	$ 68.50	$ 75.89	17.8	18.8	-5%	18.4	$ 4,043.53	$ 3,428.78	18%	$ 3,646.19
CAP DA	$ 16.05	$ 16.45	-2%	$ 16.45	$ 17.46	7.7	8.0	-3%	7.8	$ 2,073.78	$ 1,843.86	12%	$ 2,002.57
PCS	$ 20.44	$ 21.85	-6%	$ 21.85	$ 33.05	42.0	31.0	35%	46.9	$ 486.98	$ 649.61	-25%	$ 692.47
All Other	$ 2.87	$ 2.47	16%	$ 2.47	$ 2.79								

	Actual	Planned	Variance	2009	2008
Enrollment	1,449,448	1,453,658	(4,210)	1,368,852	1,228,990

29

Division of Medical Assistance
DASHBOARD MEASURES--through JUNE 2010

Within are the Division of Medical Assistance's "Dashboard" measures for complete State Fiscal Year 2010.

Note the following important features of the data:

(1)   Monthly figures are based on Date of Payment, not Date of Service.

(2)   High numbers of adjusted claims in some past months have been known to cause high variations in the figures for those months. Therefore, any adjustments to claims have now been entirely excluded from all results.

(3)   Because of the variation in the data simply due to the differing number of days of claims processed during the month, a factor has been applied to smooth out this variation. The formula for the factor applied is:

Monthly factor = (Calendar days in month) I (Processing days in month)

Produced by DMA QEHO Unit

DASHBOARD OF BASIC MEASURES
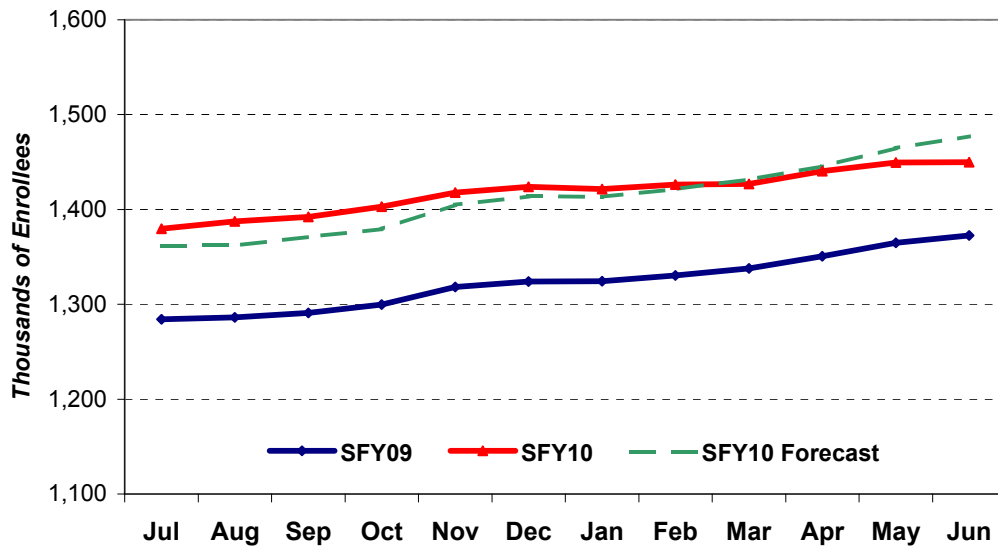
Eligibles

Monthly Change in Eligibles
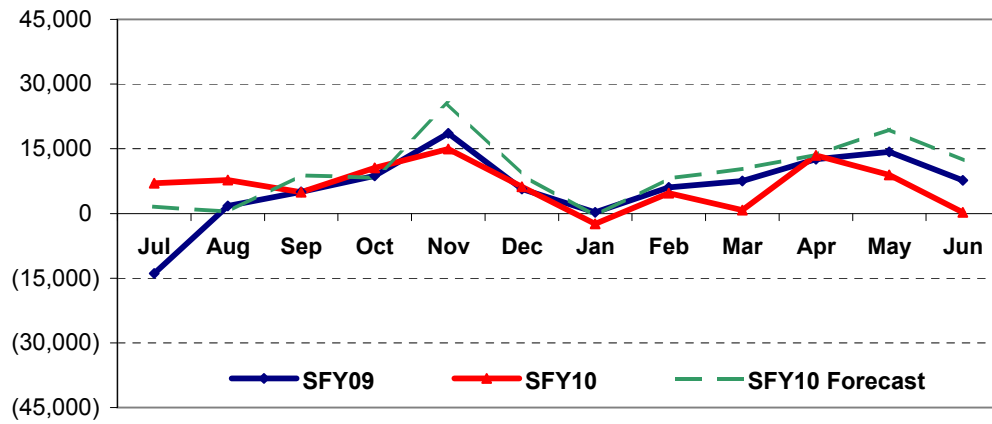
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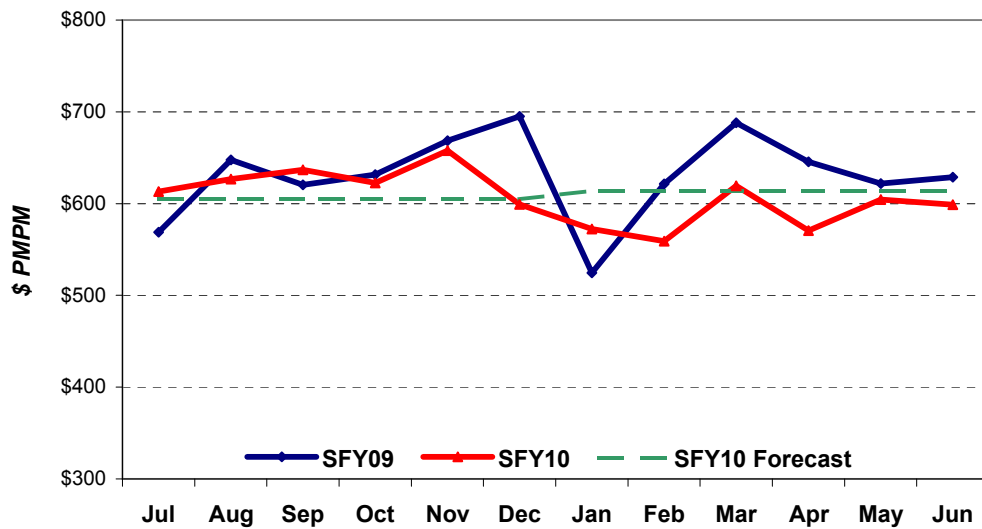
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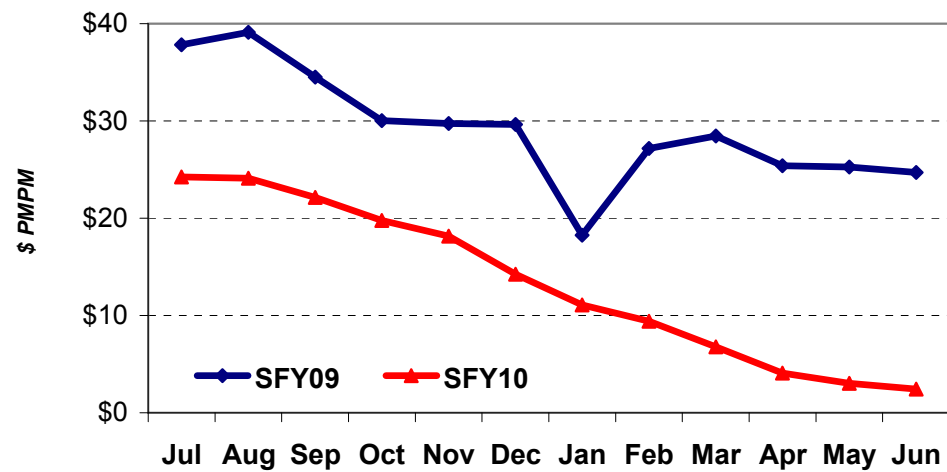
COMMUNITY SUPPORT - Recipients per 1000 Eligibles
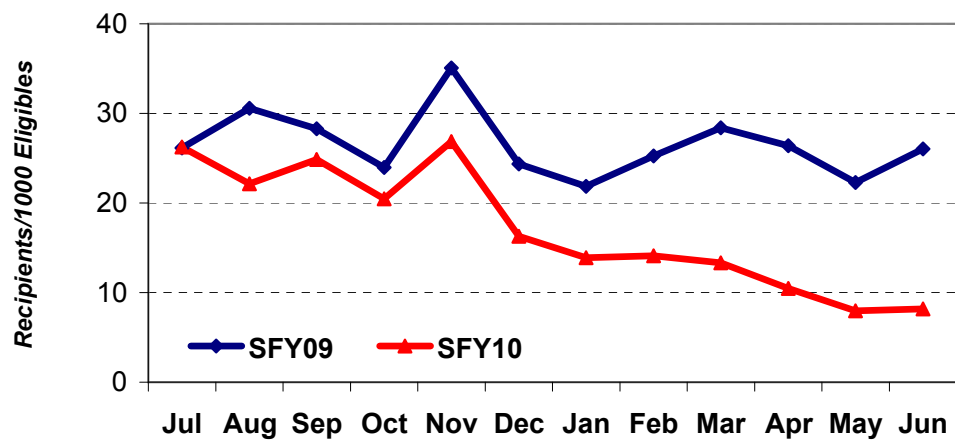
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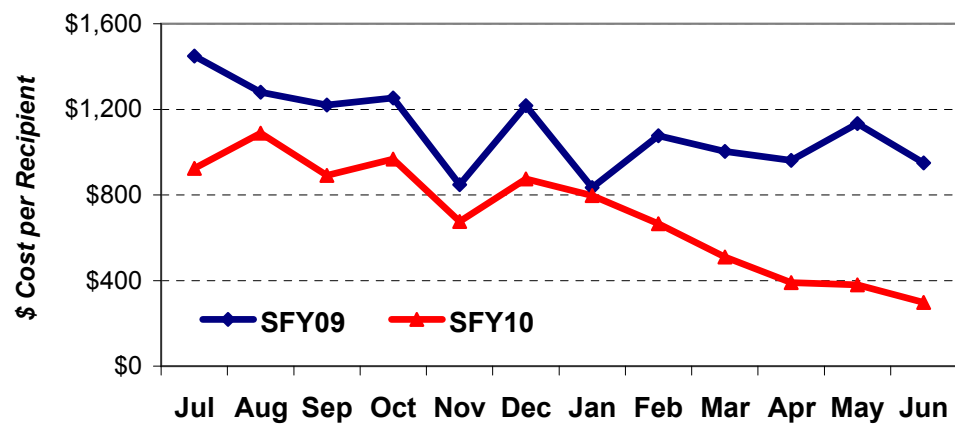
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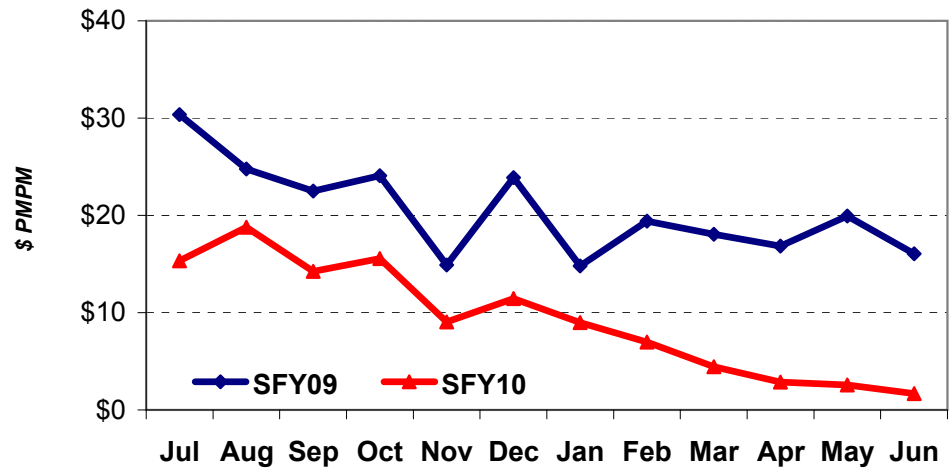
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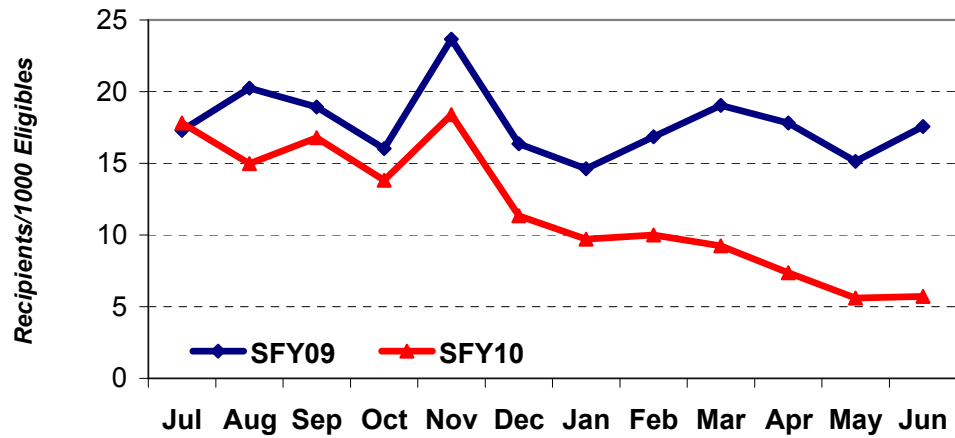
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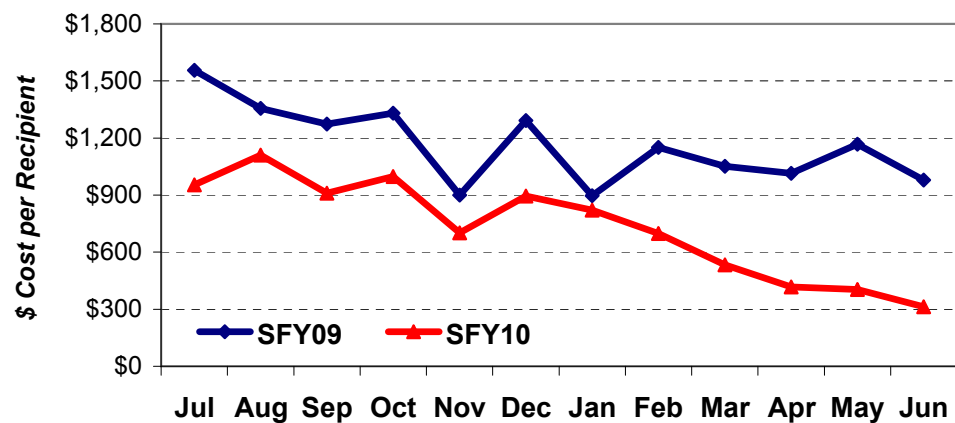
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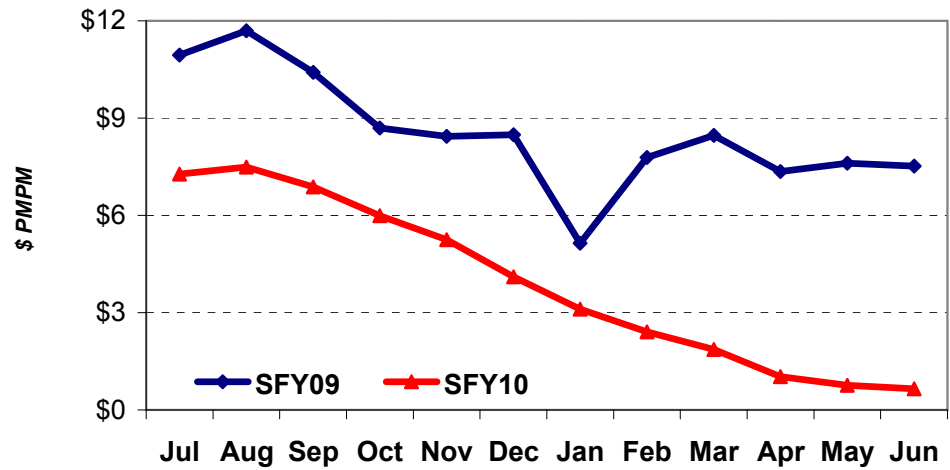
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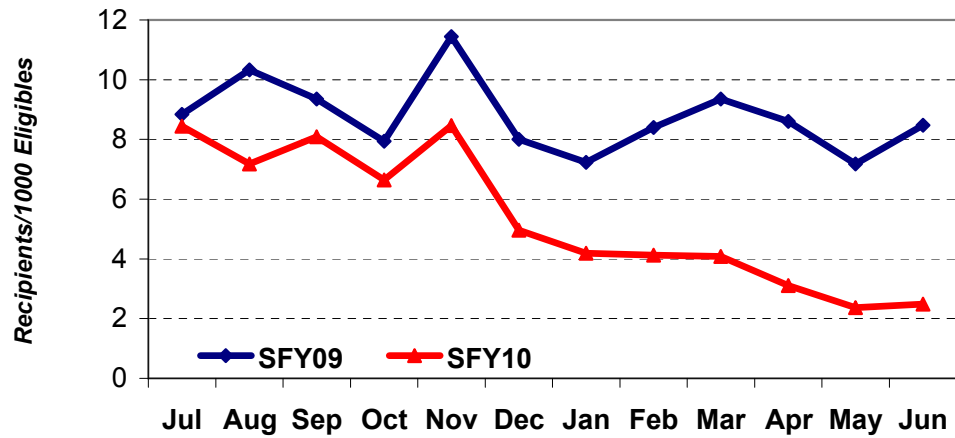
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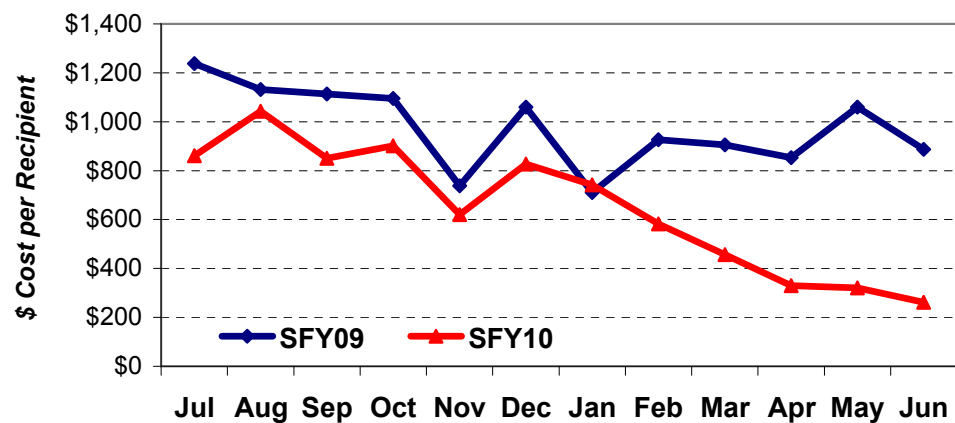
COMMUNITY SUPPORT / TEAM - PMPM
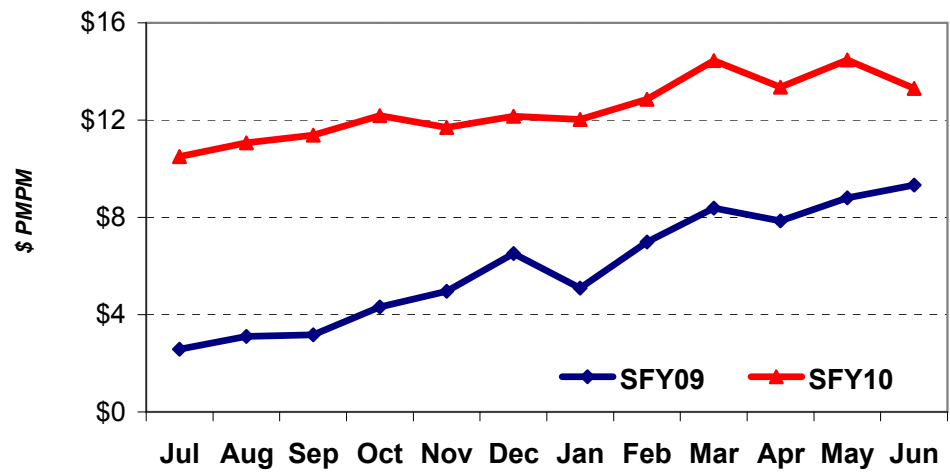
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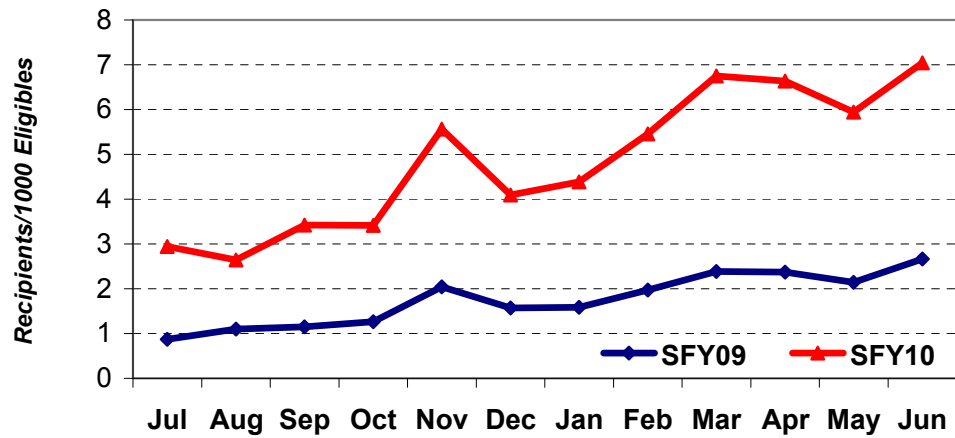
COMMUNITY SUPPORT / TEAM - Cost per Recipient
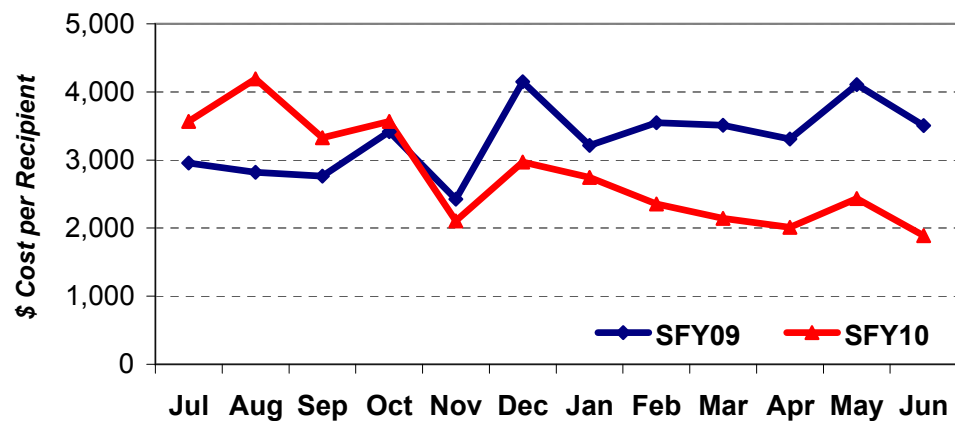
ENHANCED SERVICES* - PMPM
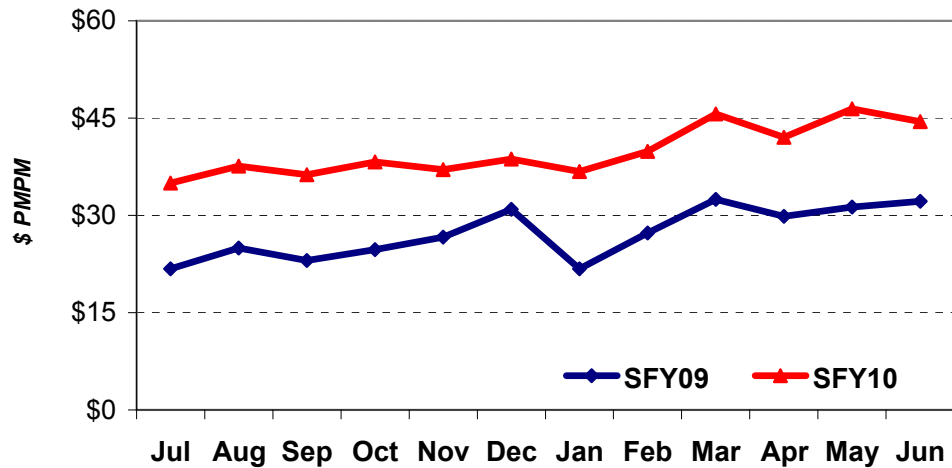
ENHANCED SERVICES* - Recipients per 1000 Eligibles
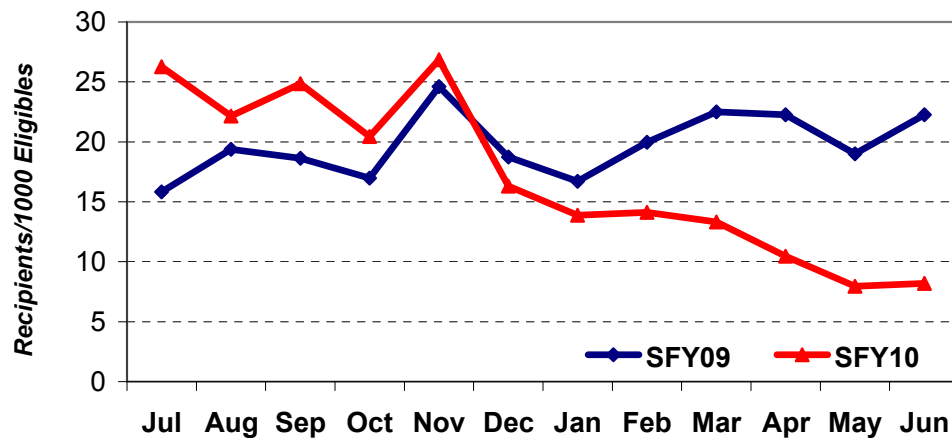
ENHANCED SERVICES* - Cost per Recipient
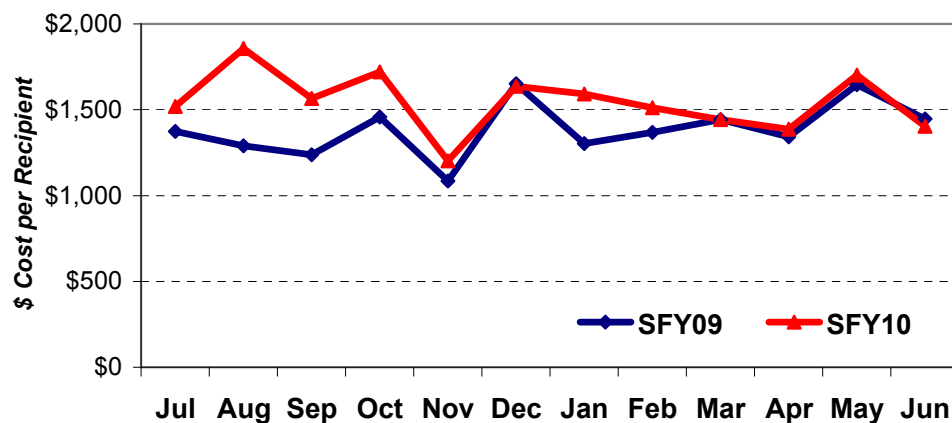
*includes Mental Health Assessment, Diagnostic Assessment, Behavioral Health Counseling & Therapy, Non-Hospital Medical Detox, Non-Medical Community Residential Treatment-Adult, Medically Monitored Community Residential Treatment, Substance Abuse Intensive Outpatient Program, Opioid Treatment, Partial Hospitalization, Assertive Community Treatment Team (ACTT), Mobile Crisis Mgmt, Child and Adolescent Day Treatment, Community Support Team, Psychosocial Rehab, Intensive In-Home, Multisystemic Therapy, Substance Abuse Comprehensive Outpatient Treatment, and Professional Treatment Svc in Facility Based Crisis Pgms. [Community Support shown separately & not included here.]

Intermediate Care Facilities/Mentally Retarded - PMPM
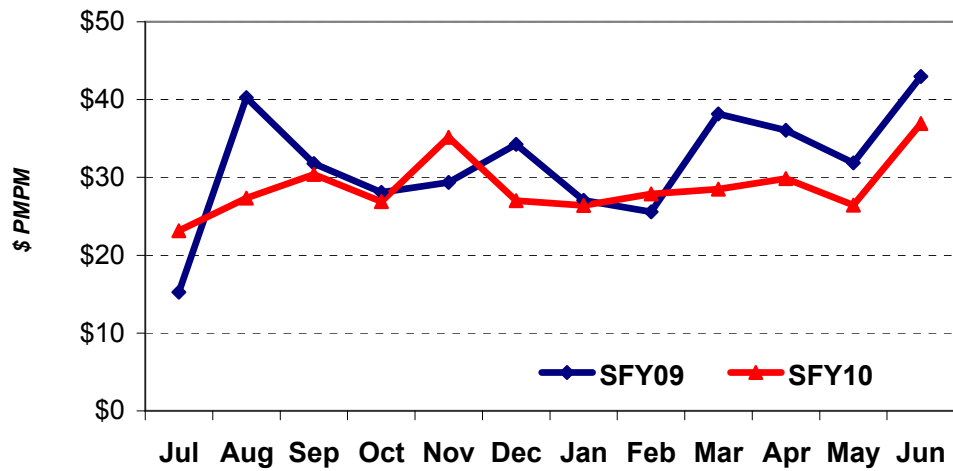
Intermediate Care Facilities/Mentally Retarded - Recipients per 1000 Eligibles
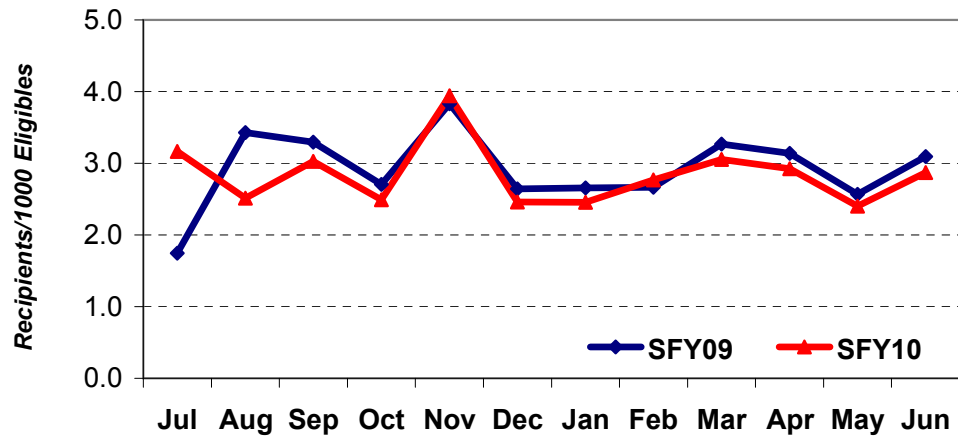
Intermediate Care Facilities/Mentally Retarded - Cost per Recipient
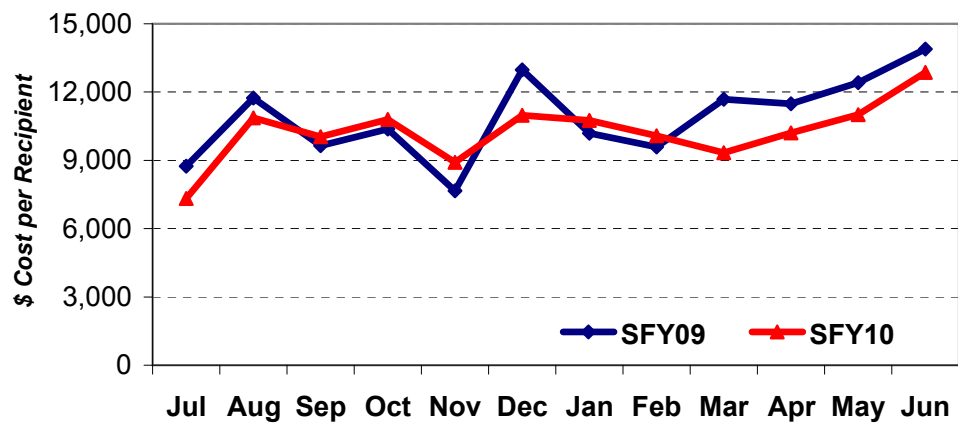
INPATIENT PSYCH - PMPM
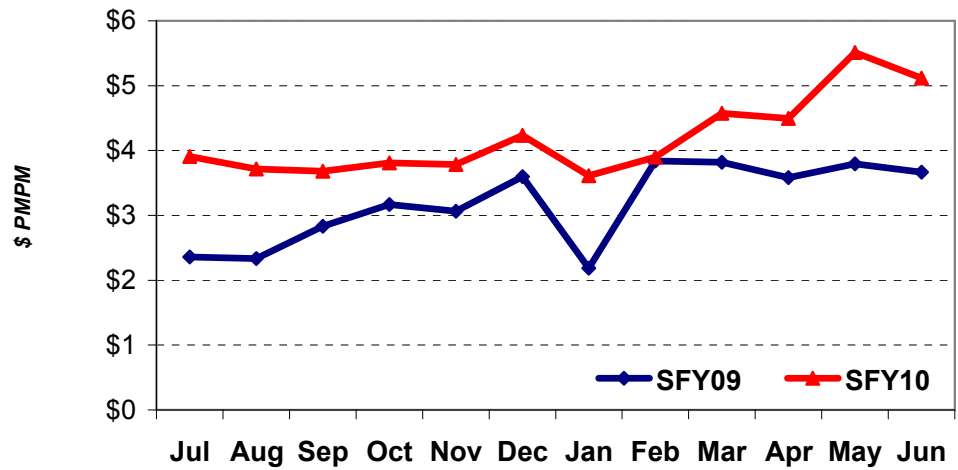
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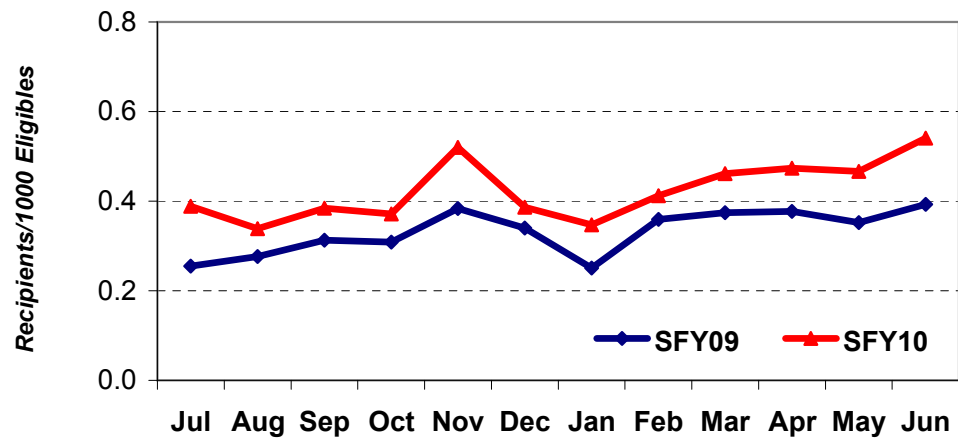
INPATIENT PSYCH - Cost per Recipient
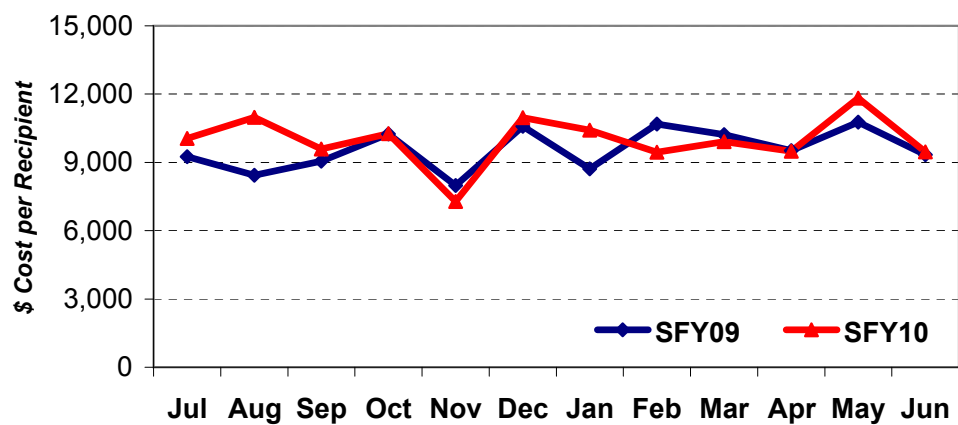
INTENSIVE IN-HOME - PMPM
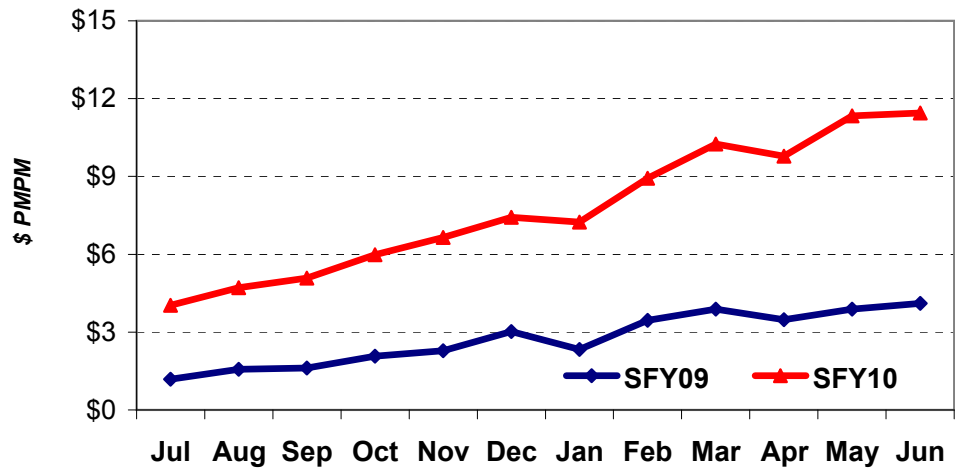
INTENSIVE IN-HOME - Recipients per 1000 Eligibles
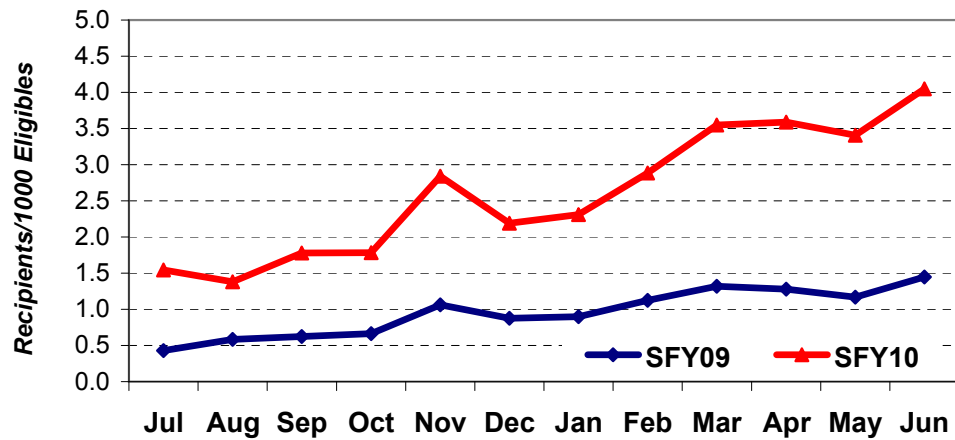
INTENSIVE IN-HOME - Cost per Recipient
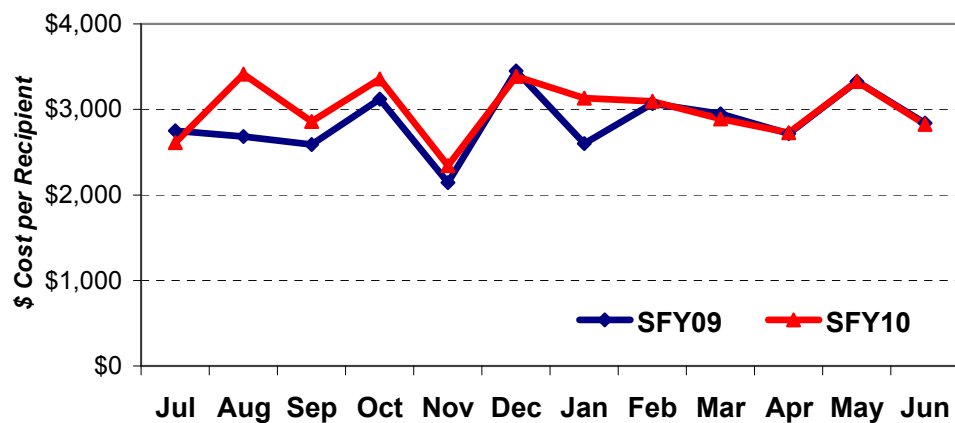
CASE MANAGEMENT DASHBOARD

GENERAL CASE MANAGEMENT - PMPM
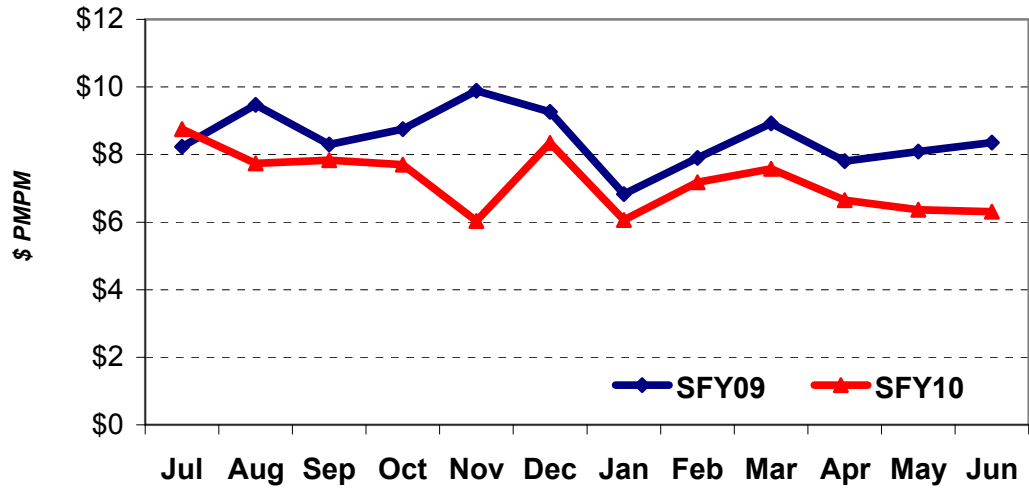
GENERAL CASE MANAGEMENT - Recipients per 1000 Eligibles
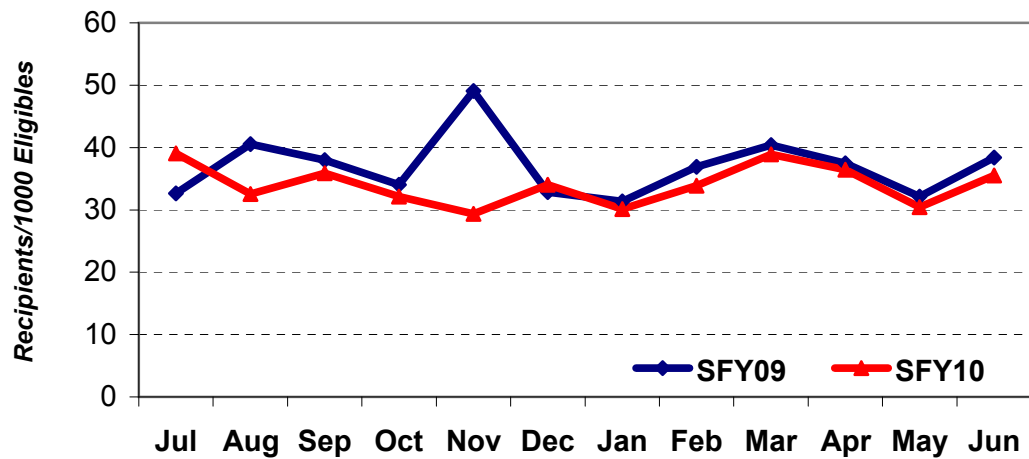
GENERAL CASE MANAGEMENT - Cost per Recipient
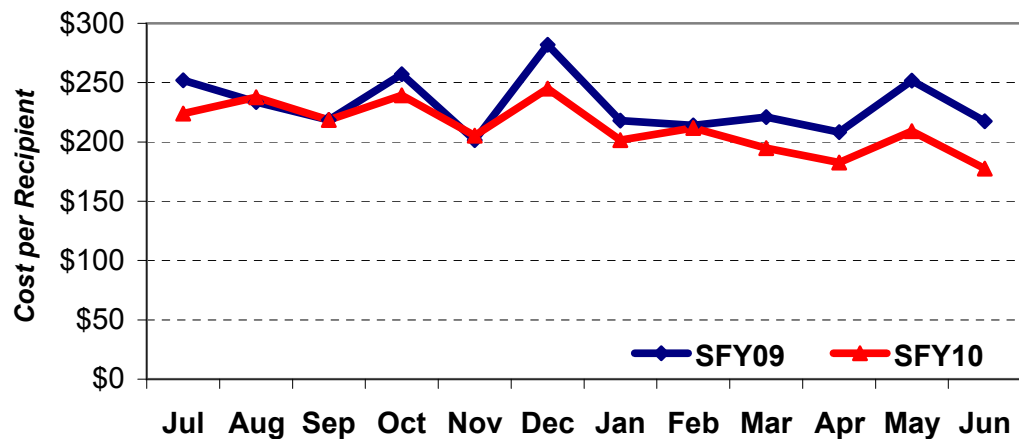
HIV CASE MANAGEMENT - PMPM
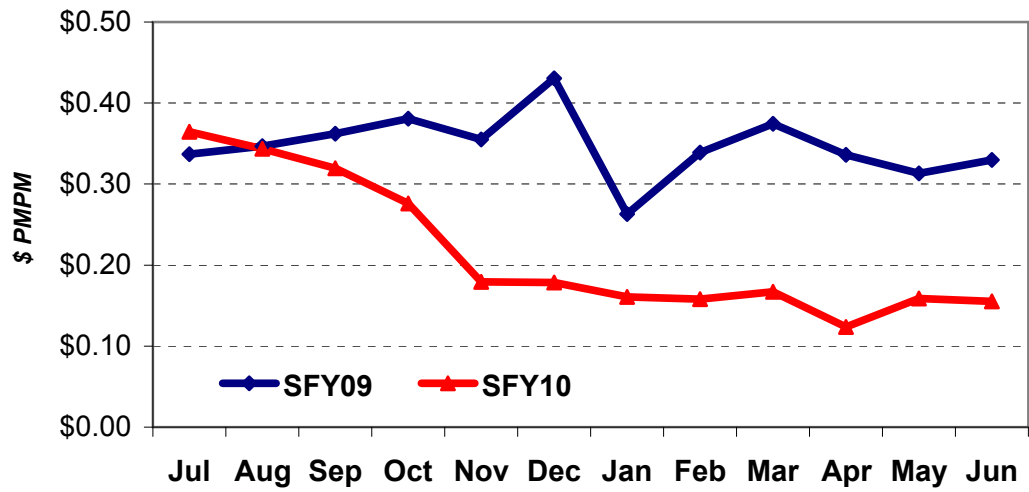
HIV CASE MANAGEMENT - Recipients per 1000 Eligibles
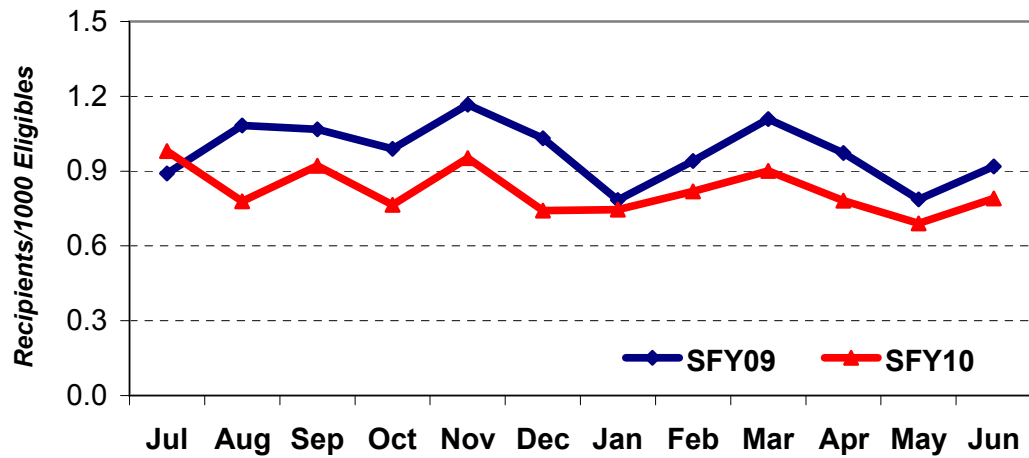
HIV CASE MANAGEMENT - Cost per Recipient
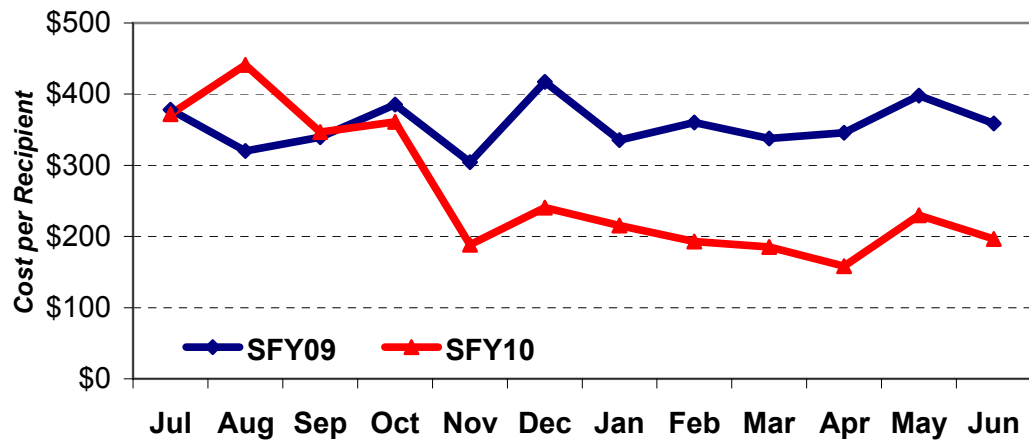
LONG TERM CARE - PMPM
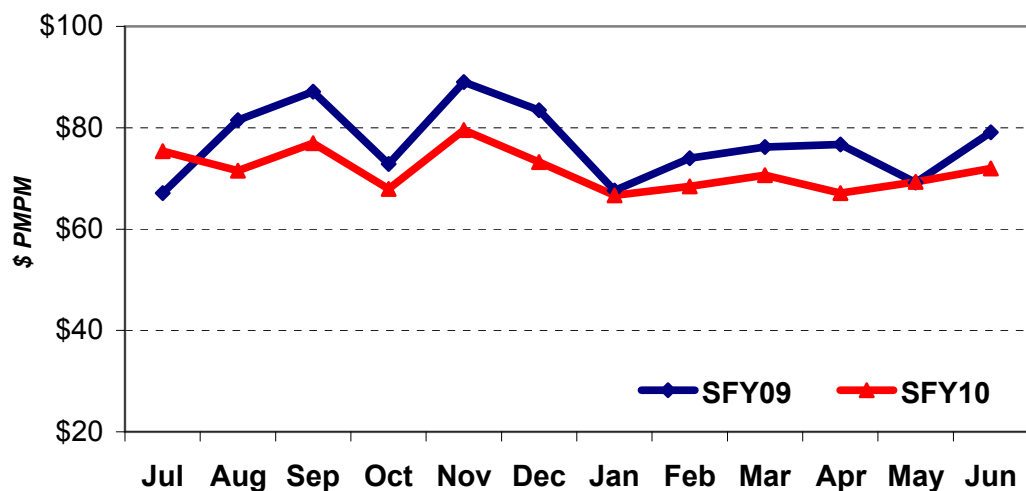
LONG TERM CARE - Recipients per 1000 Eligibles
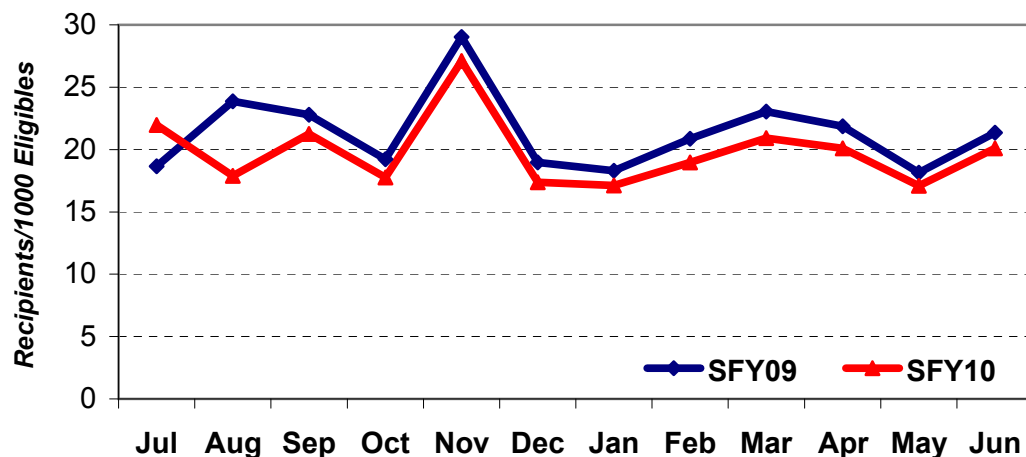
LONG TERM CARE - Cost per Recipient
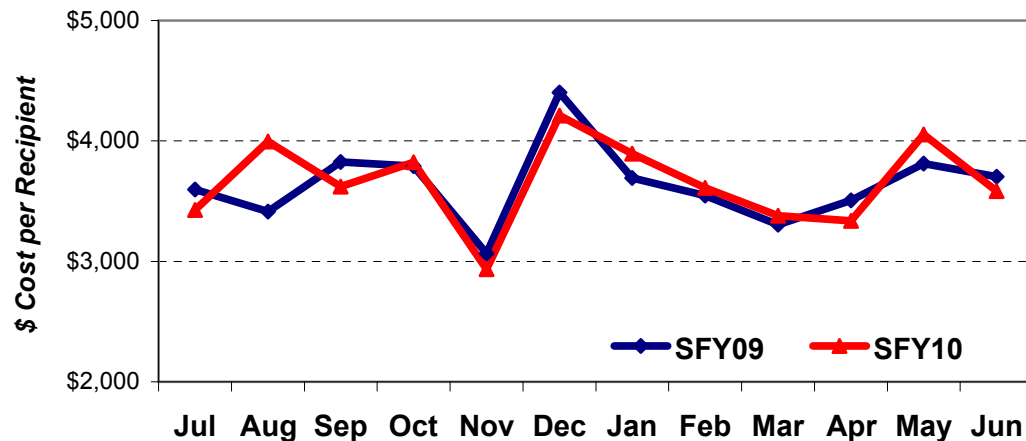
PERSONAL CARE SERVICES

PERSONAL CARE SERVICES - PMPM
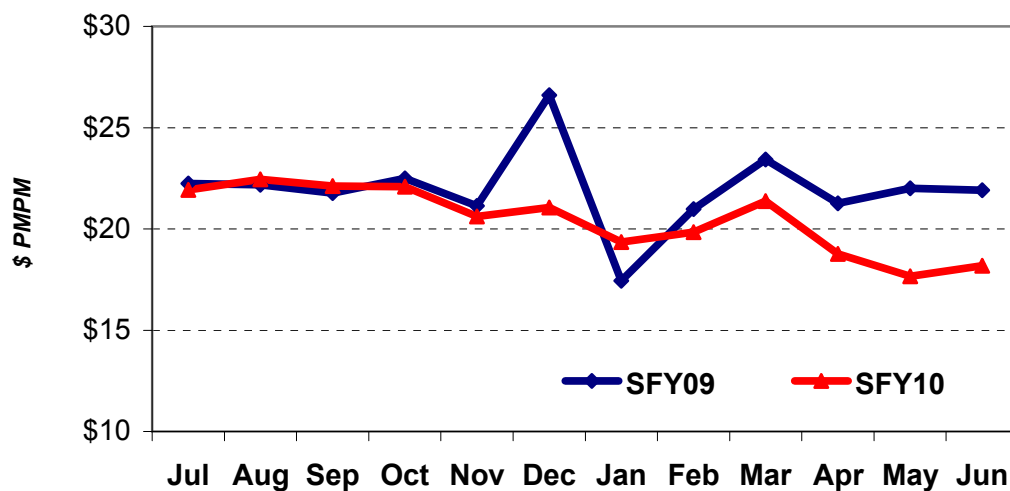
PERSONAL CARE SERVICES - Recipients per 1000 Eligibles
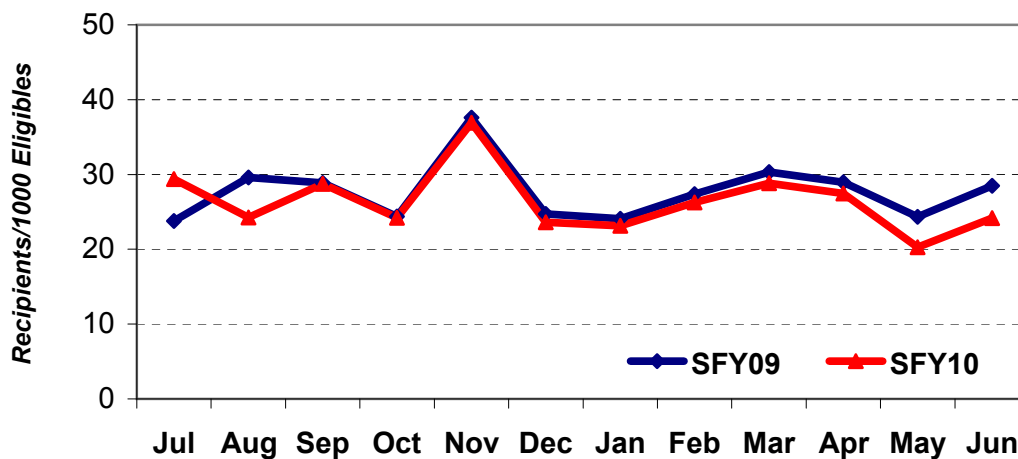
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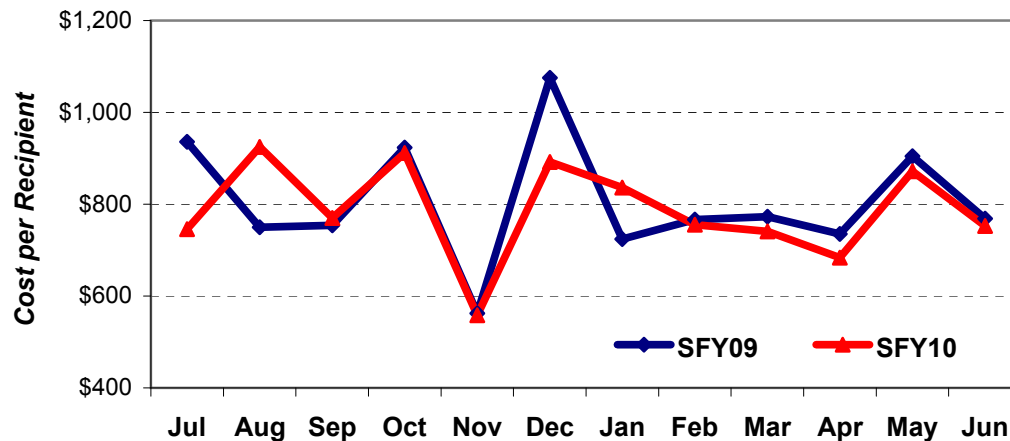
State + Federal dollars,
based on date of payment

PHARMACY - PMPM
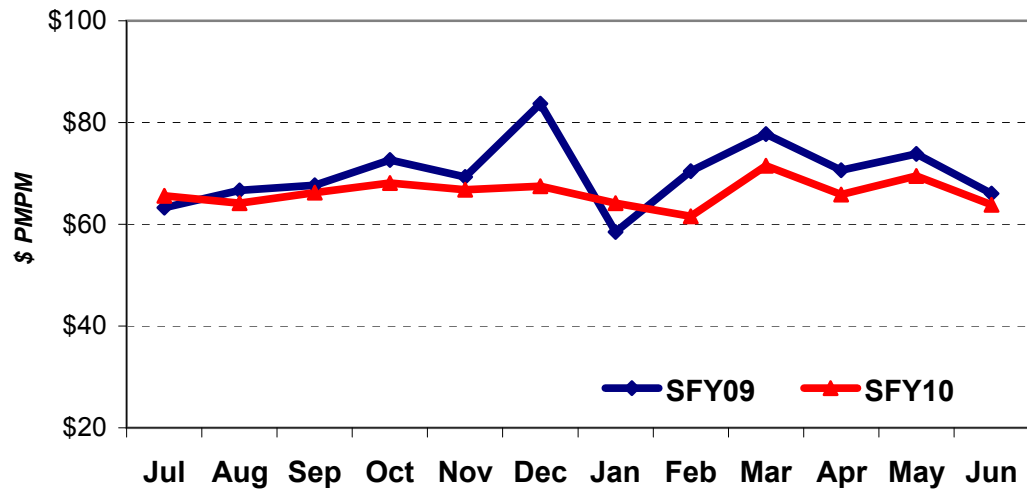
PHARMACY - Recipients per 1000 Eligibles
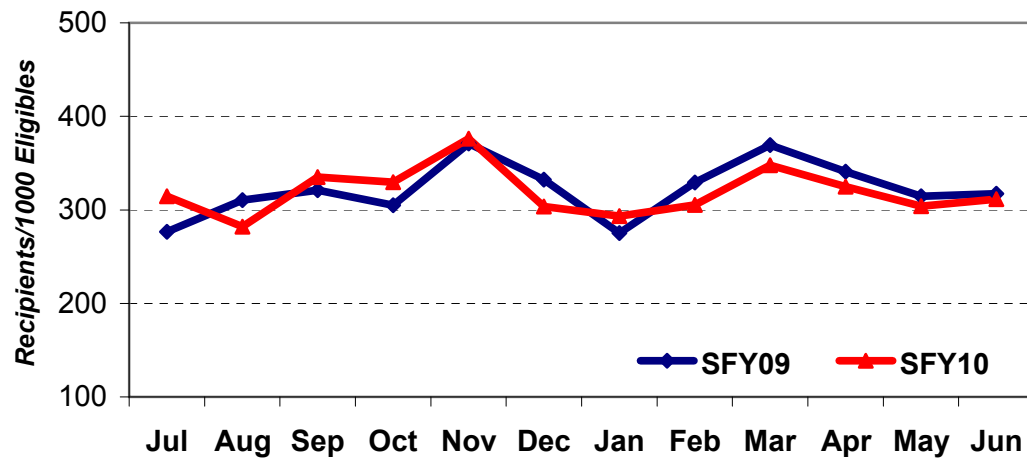
PHARMACY - Cost per Recipient
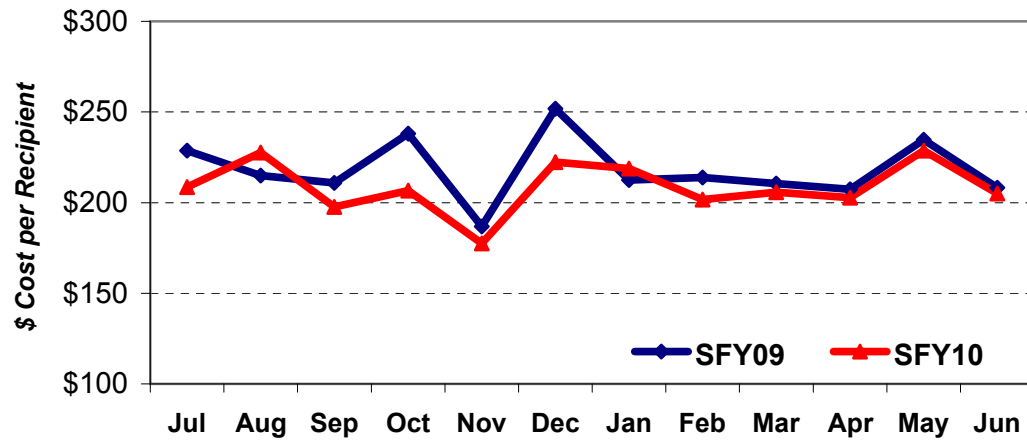
PHARMACY (CCNC)

State + Federal dollars,
based on date of payment

PHARMACY (CCNC) - PMPM
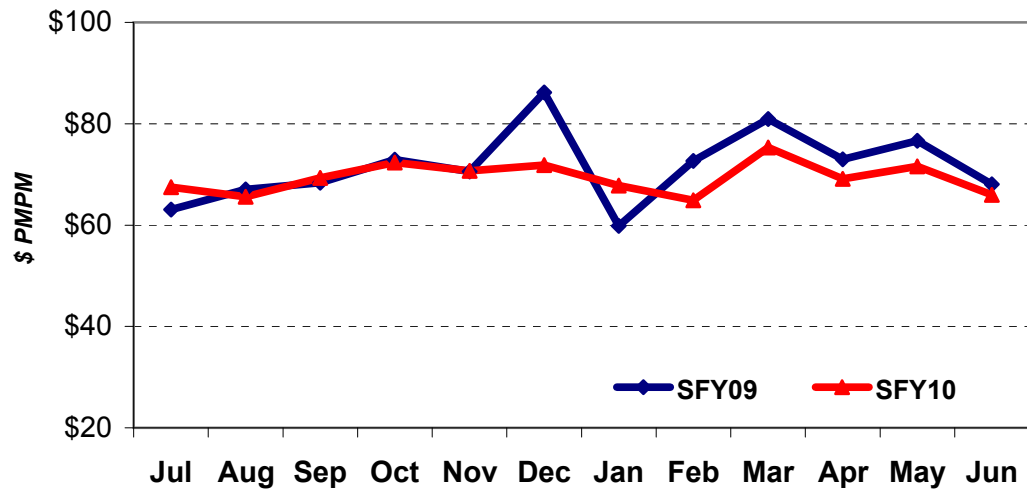
PHARMACY (CCNC) - Recipients per 1000 Eligibles
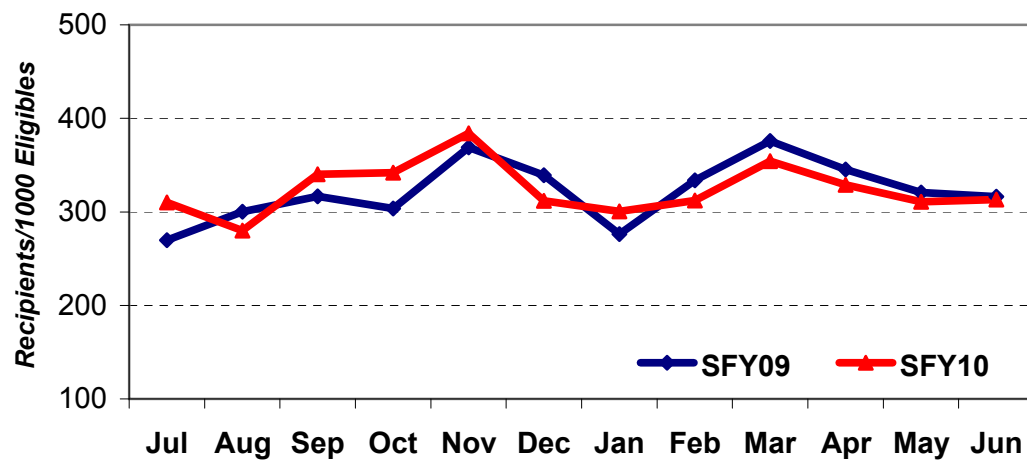
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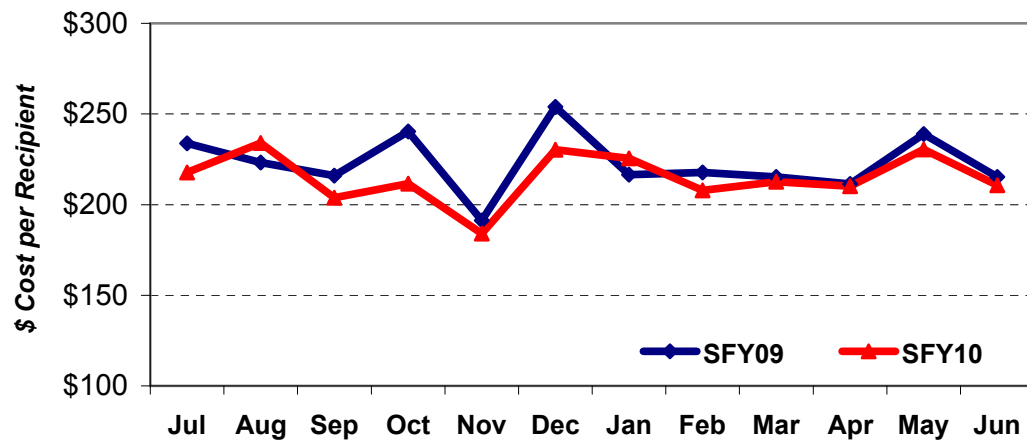
GROUP HOMES
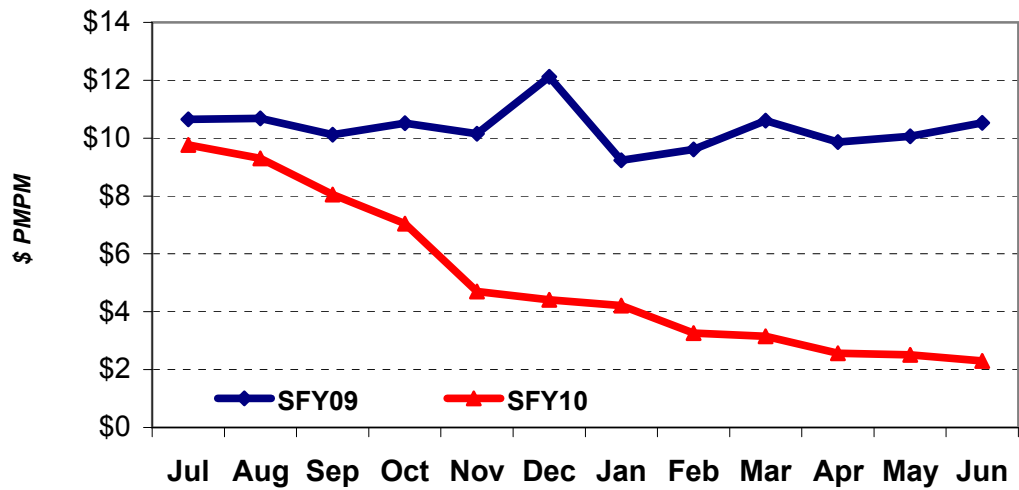
GROUP HOMES - PMPM

GROUP HOMES - Recipients per 1000 Eligibles
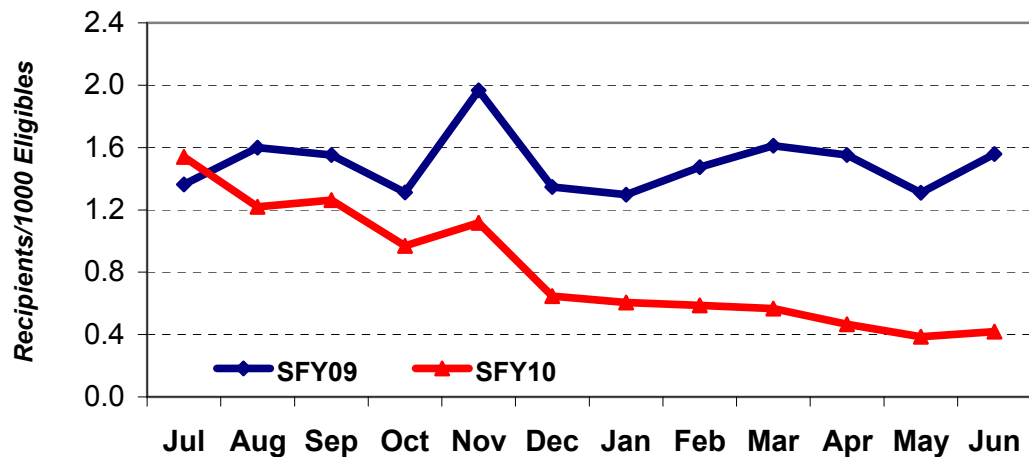
GROUP HOMES - Cost per Recipient
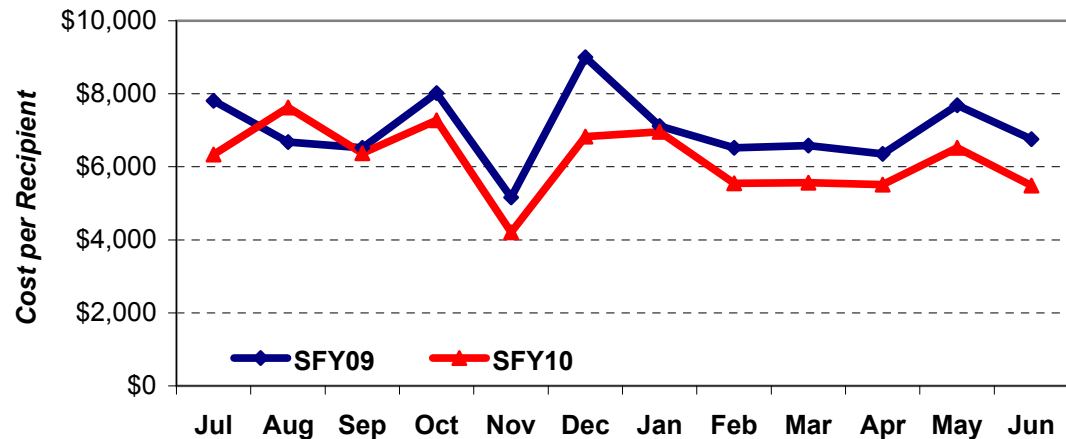
DURABLE MEDICAL EQUIPMENT

DURABLE MEDICAL EQUIPMENT - PMPM
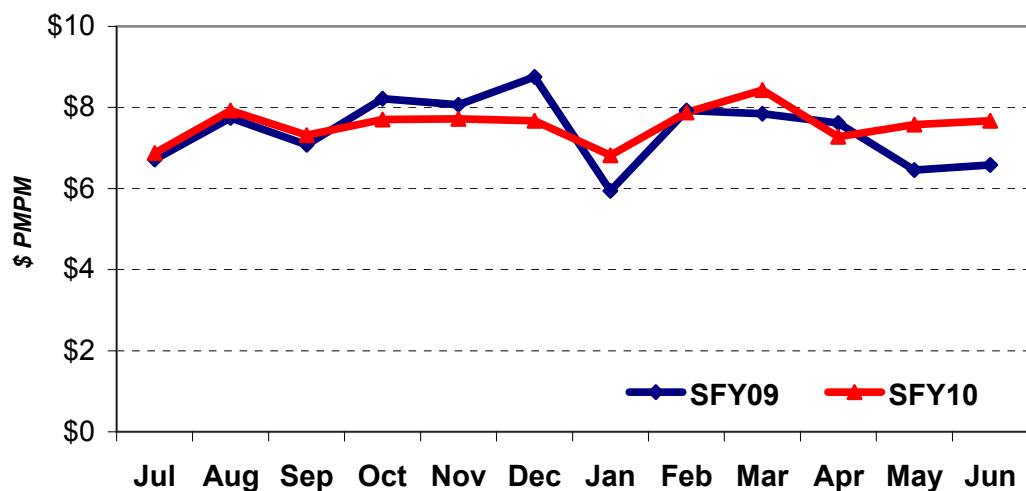
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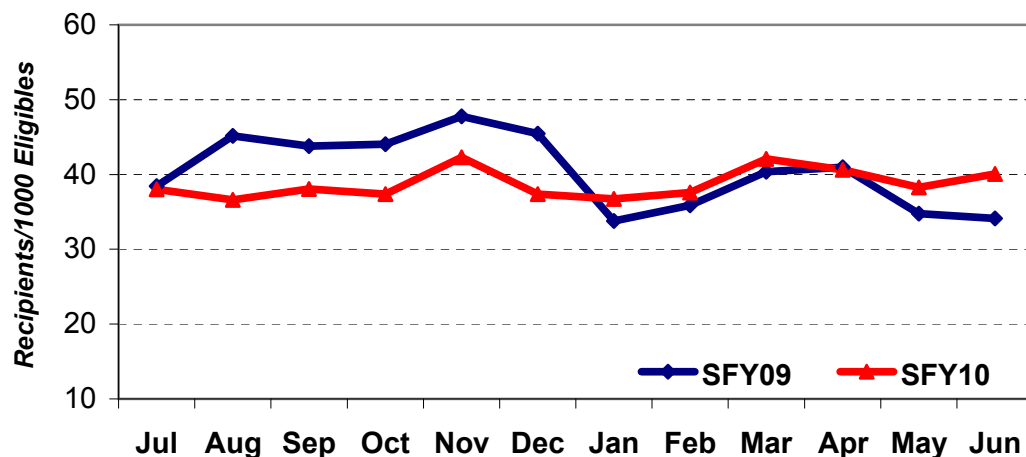
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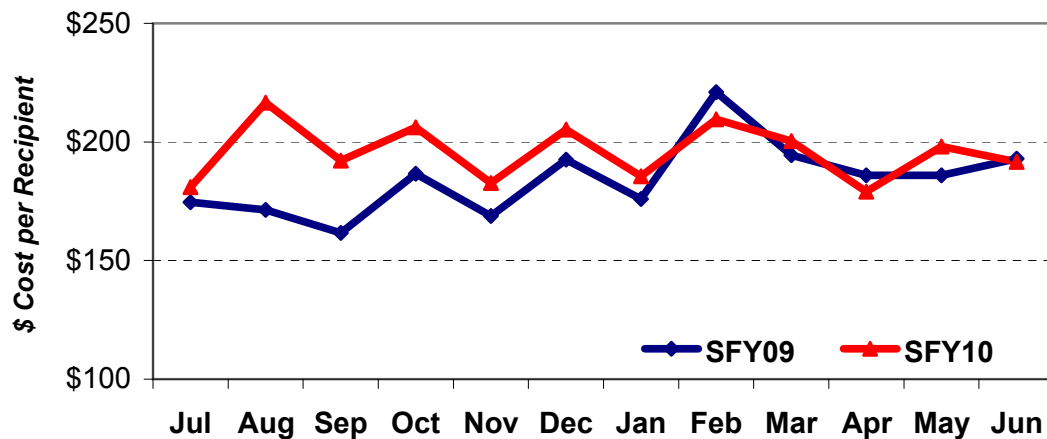
EMERGENCY ROOM SERVICES

EMERGENCY ROOM SERVICES - PMPM
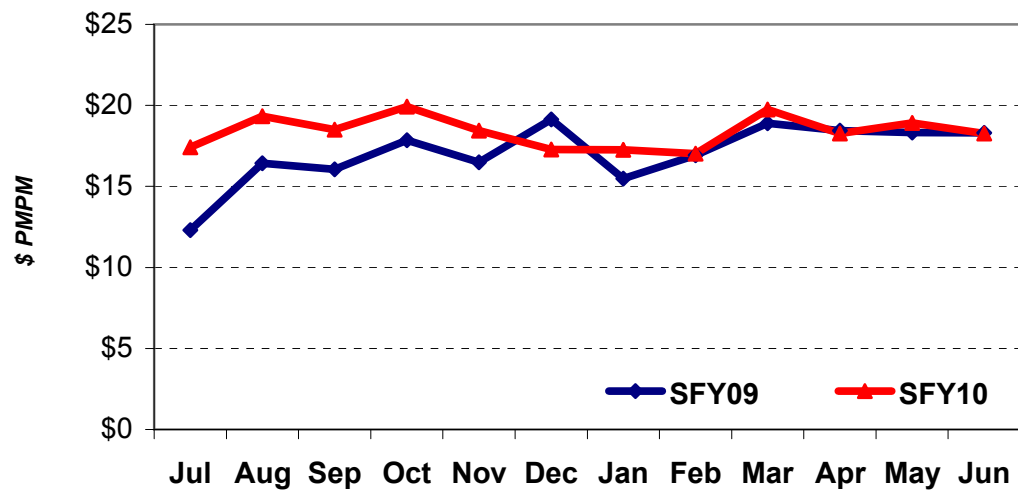
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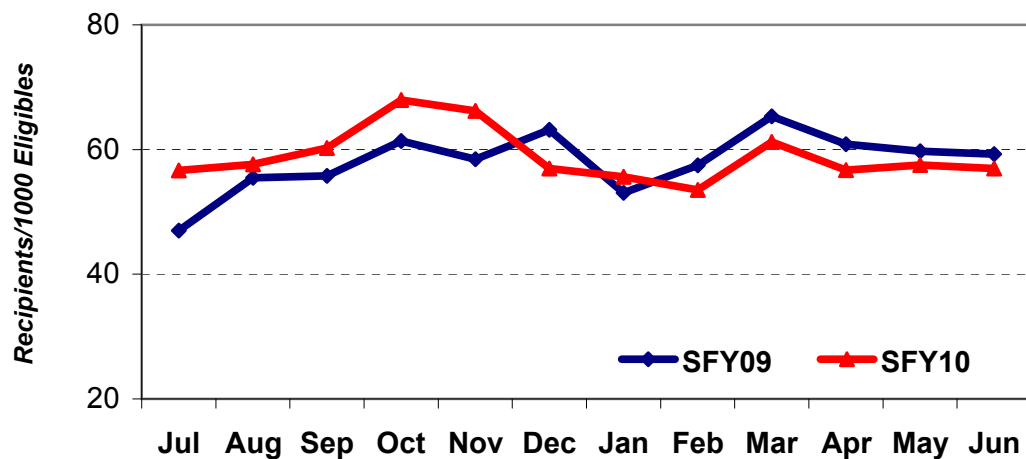
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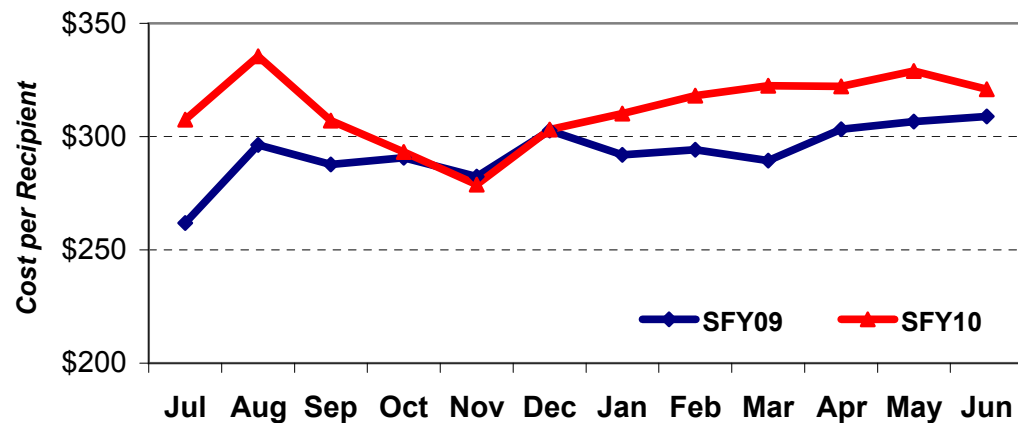
EMERGENCY ROOM SERVICES (CCNC)

EMERGENCY ROOM SERVICES (CCNC) - PMPM
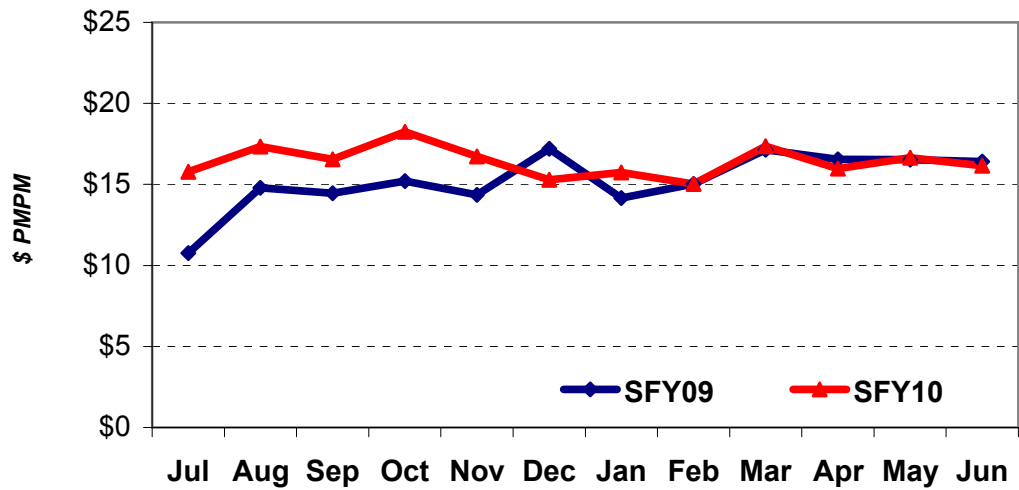
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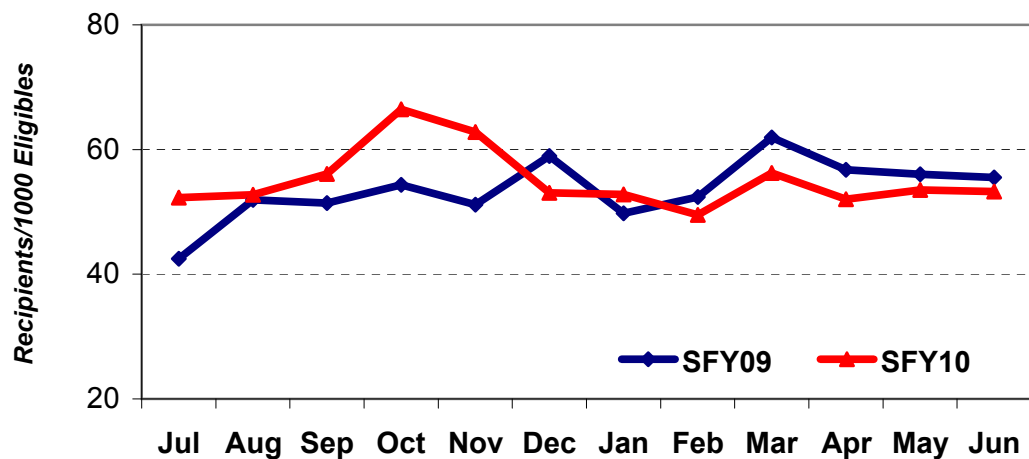
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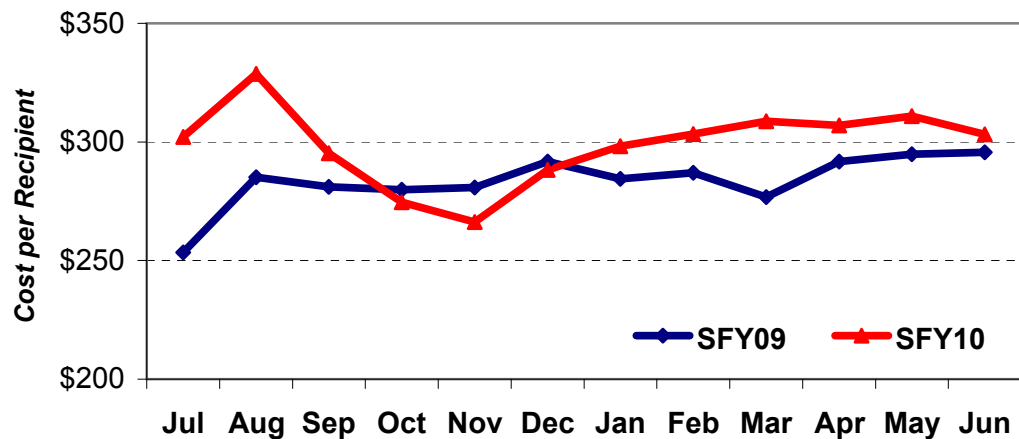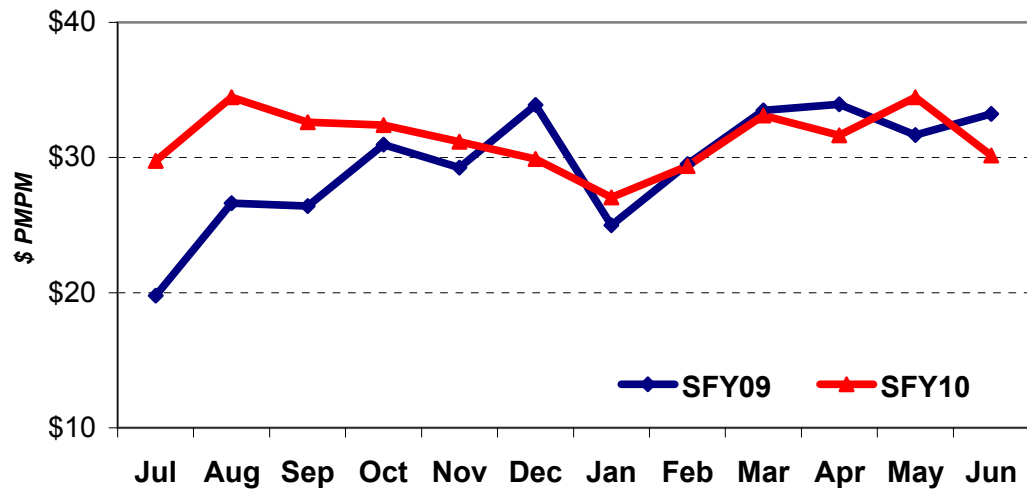
OUTPATIENT HOSPITAL SERVICES

OUTPATIENT SERVICES - PMPM

OUTPATIENT SERVICES - Recipients per 1000 Eligibles
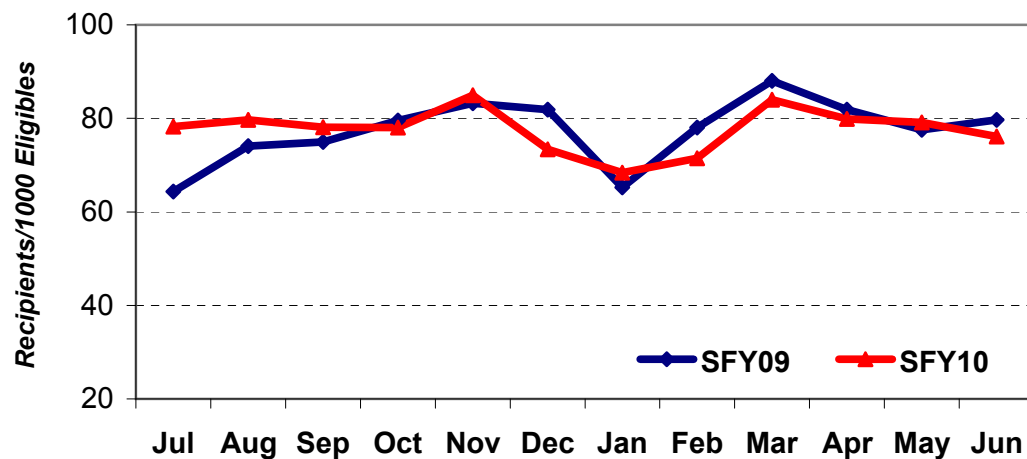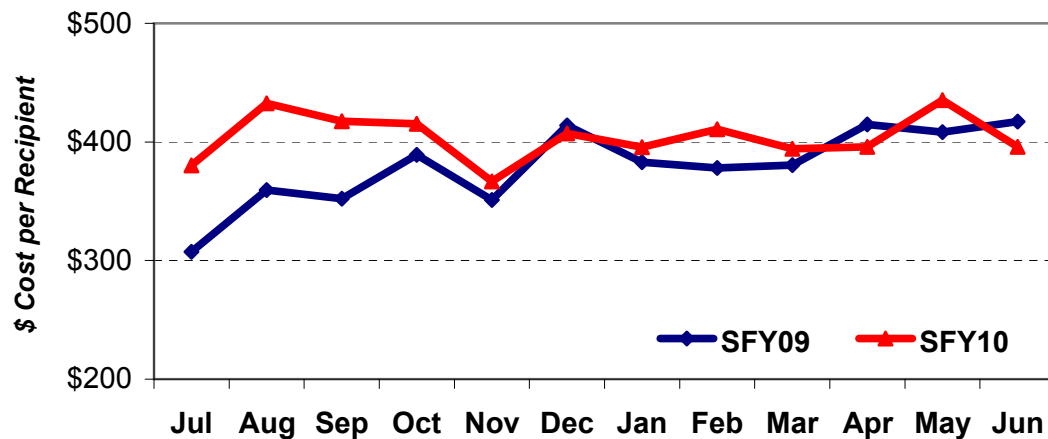
OUTPATIENT SERVICES - Cost per Recipient

OUTPATIENT HOSPITAL SERVICES (CCNC)
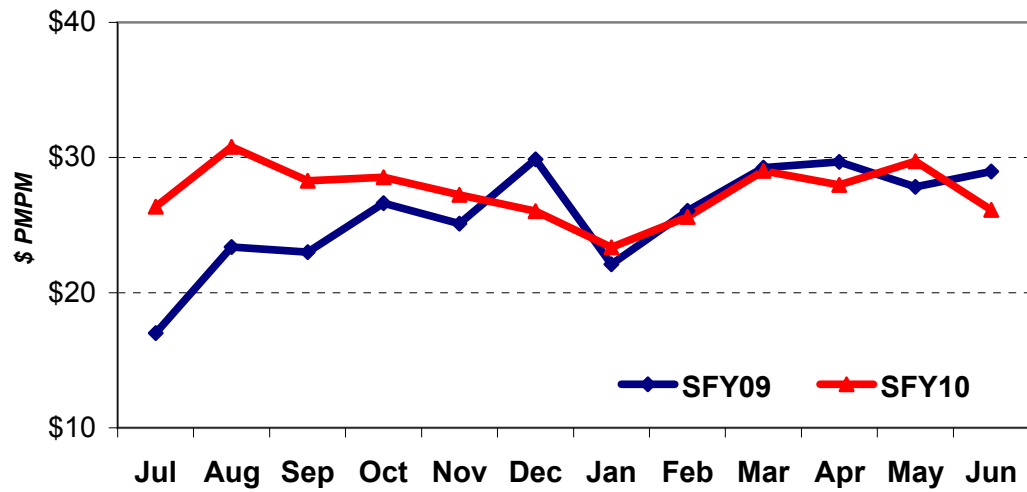
OUTPATIENT SERVICES (CCNC) - PMPM

OUTPATIENT SERVICES (CCNC) - Recipients per 1000 Eligibles
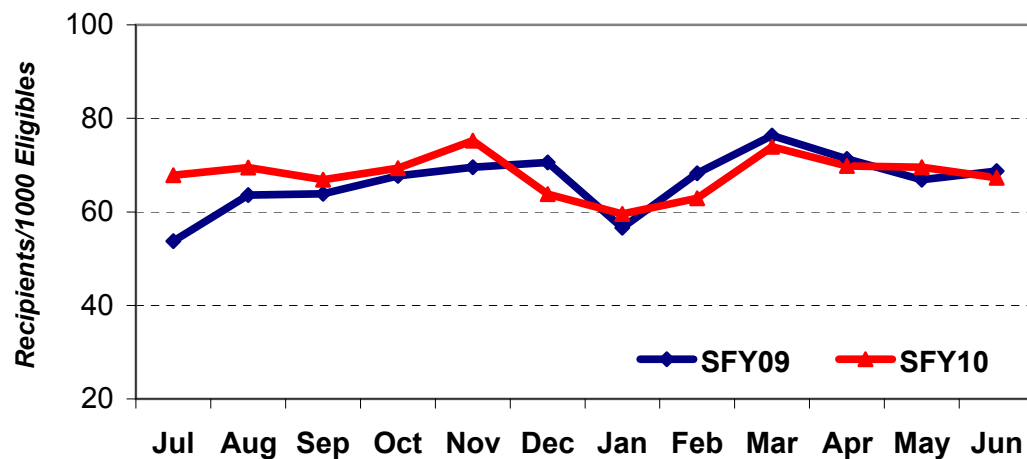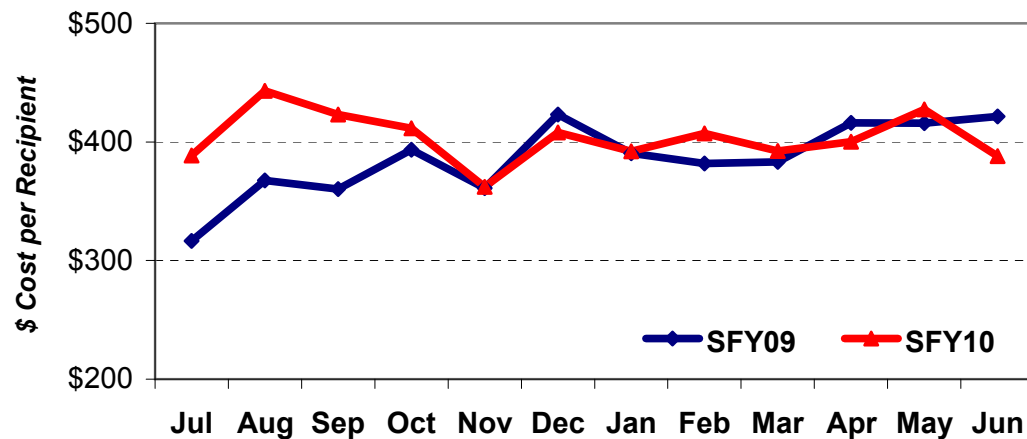
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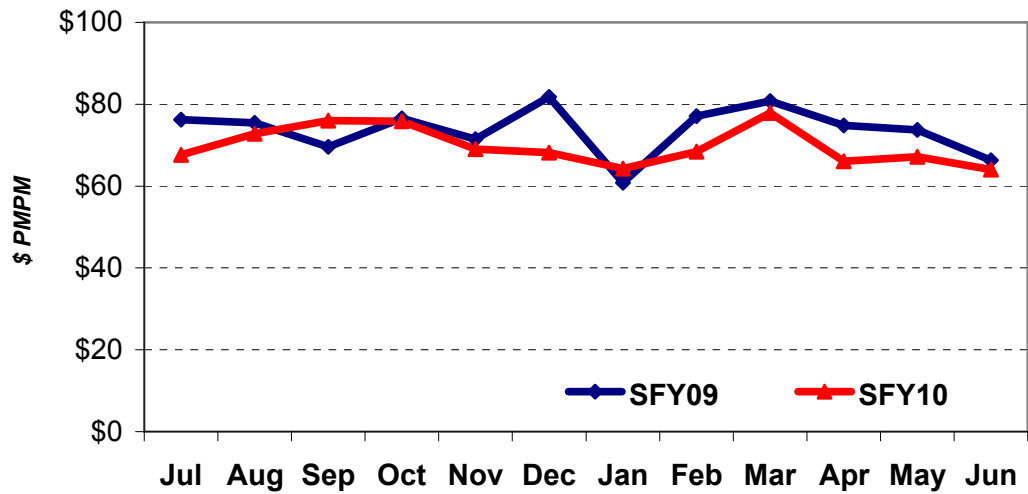
INPATIENT HOSPITAL SERVICES

INPATIENT SERVICES - PMPM

INPATIENT SERVICES - Recipients per 1000 Eligibles
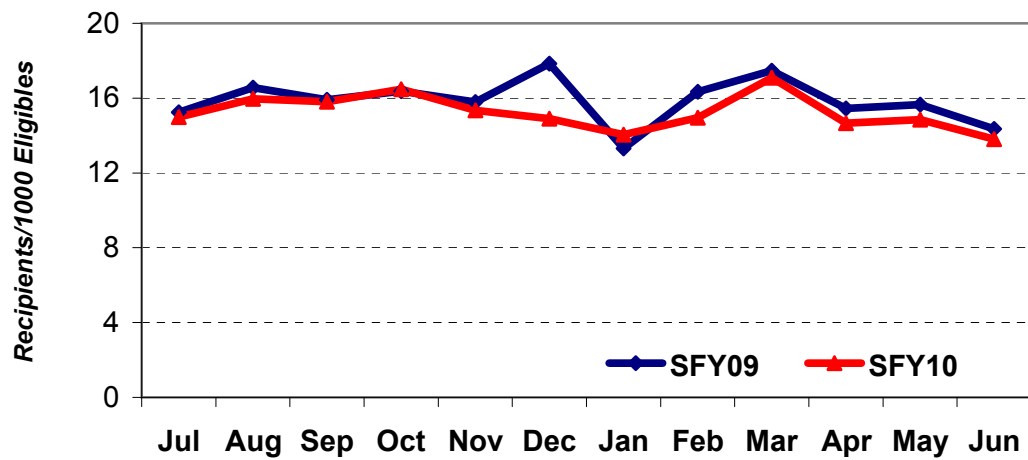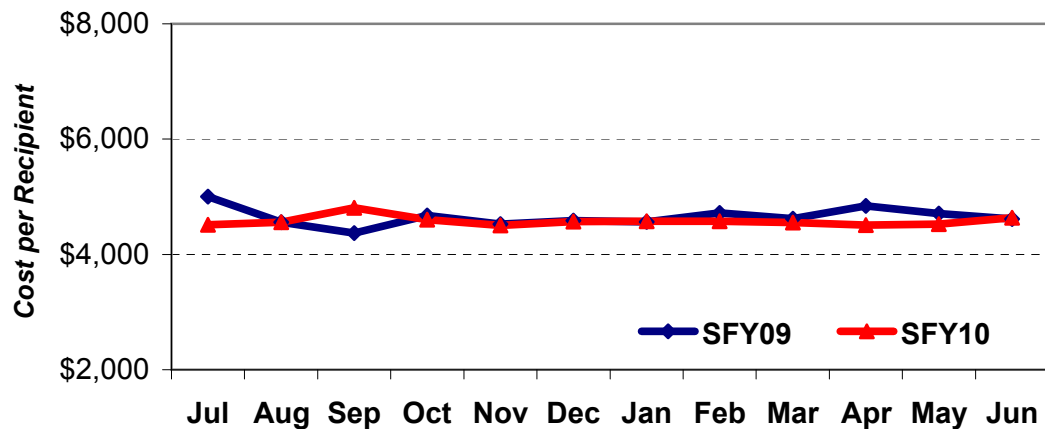
INPATIENT SERVICES - Cost per Recipient

INPATIENT HOSPITAL SERVICES (CCNC)
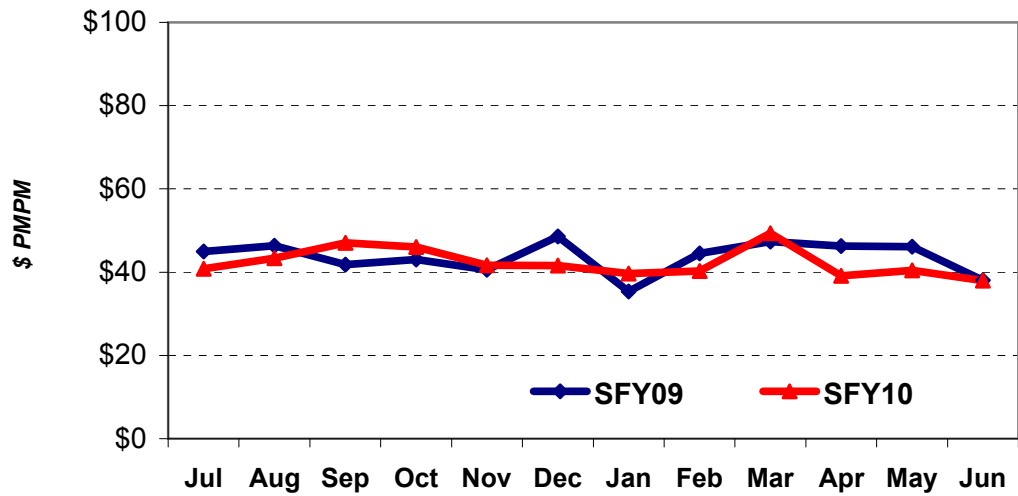
INPATIENT SERVICES (CCNC) - PMPM

INPATIENT SERVICES (CCNC) - Recipients per 1000 Eligibles
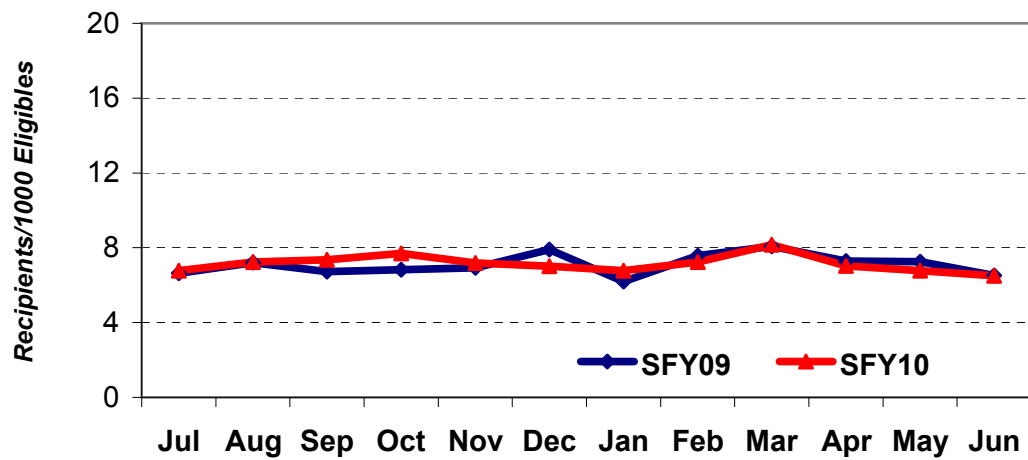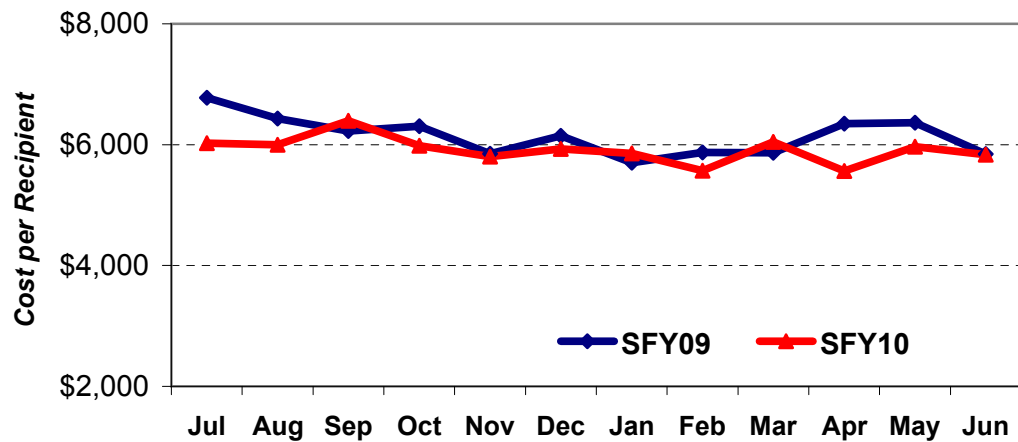
INPATIENT SERVICES (CCNC) - Cost per Recipient

PHYSICIAN SERVICES - PMPM
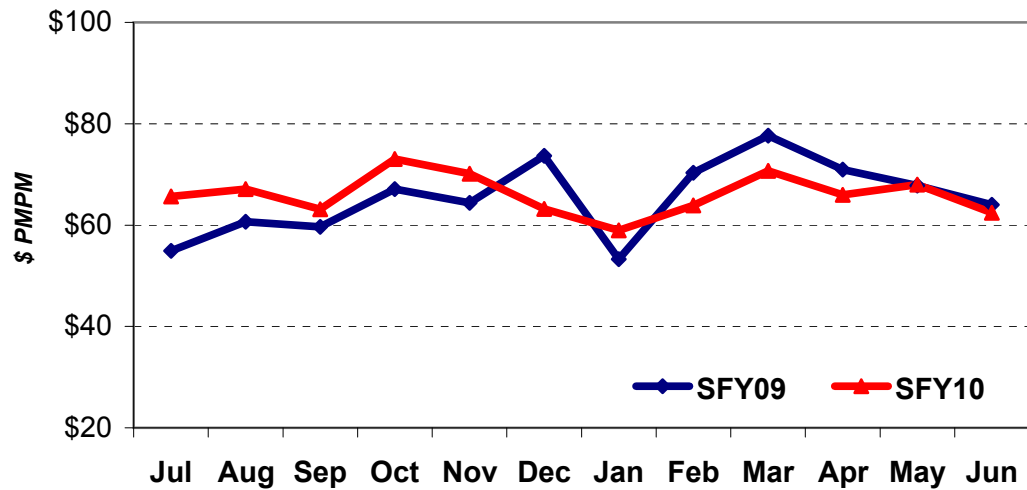
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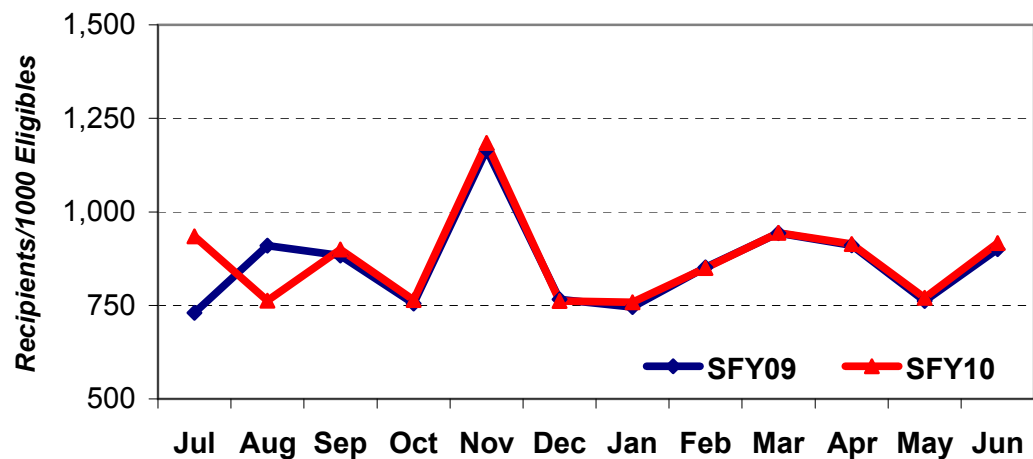
PHYSICIAN SERVICES - Cost per Recipient
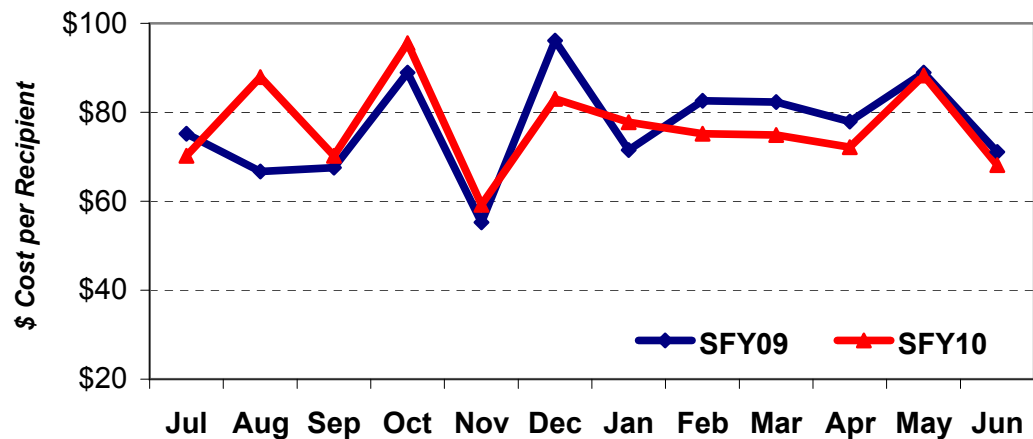
PHYSICIAN SERVICES

PHYSICIAN SERVICES (CCNC) - PMPM
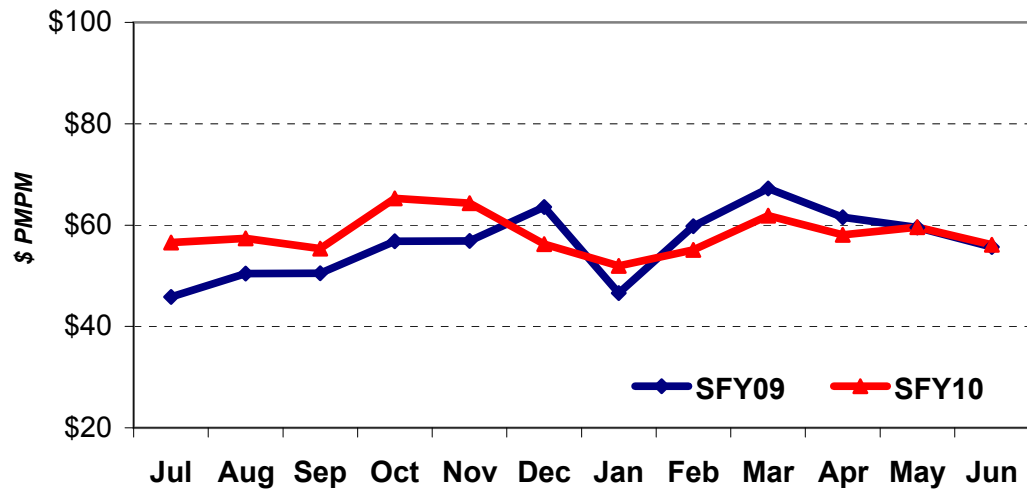
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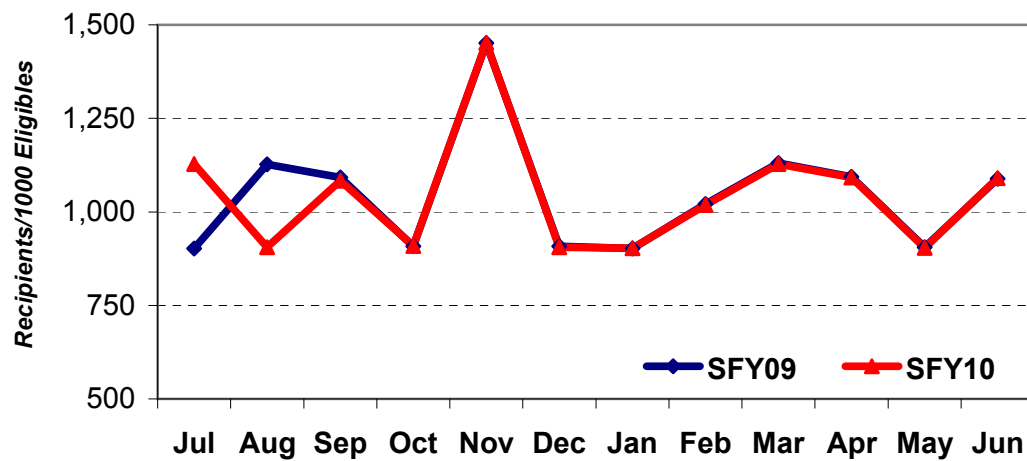
PHYSICIAN SERVICES (CCNC) - Cost per Recipient
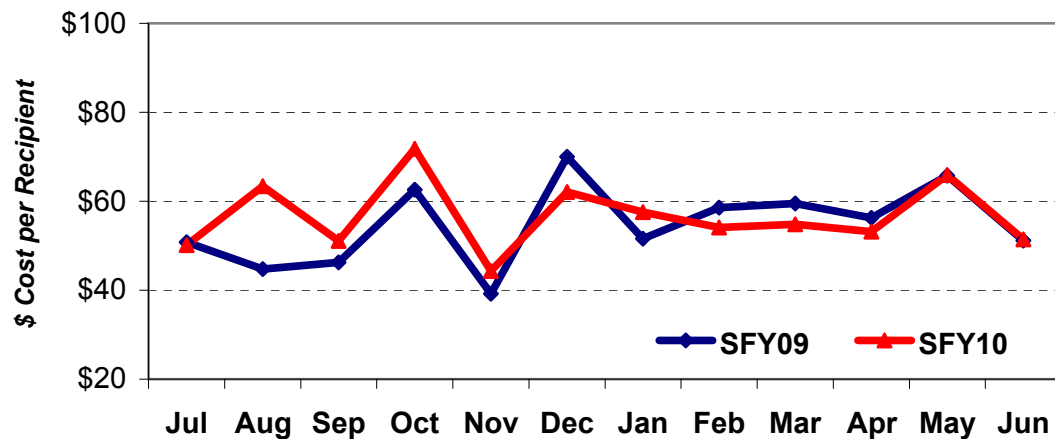
CHILDREN'S DENTAL SERVICES - PMPM*
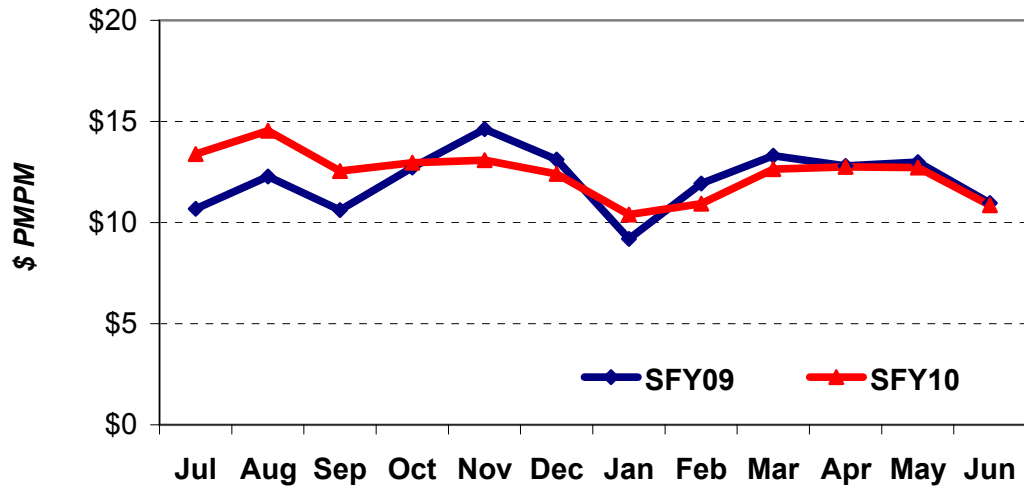
CHILDREN'S DENTAL SERVICES - Recipients per 1000 Eligibles*
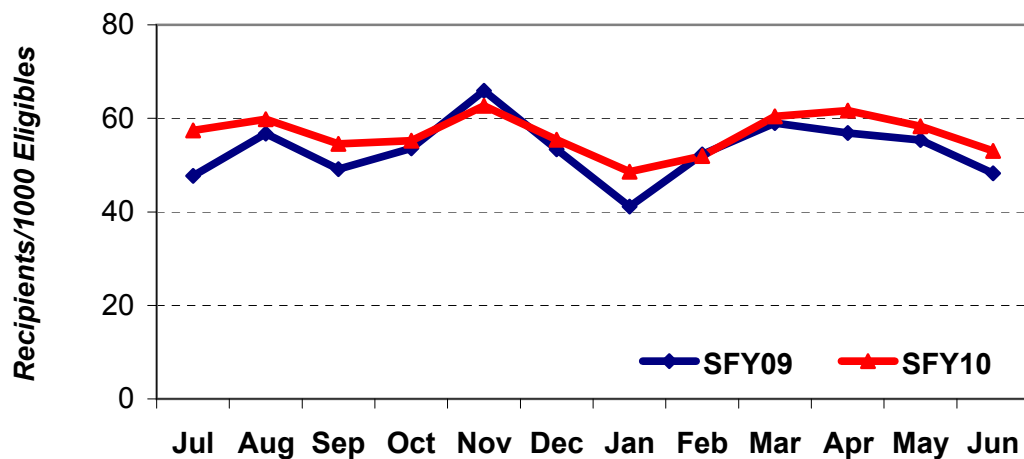
CHILDREN'S DENTAL SERVICES - Cost per Recipient
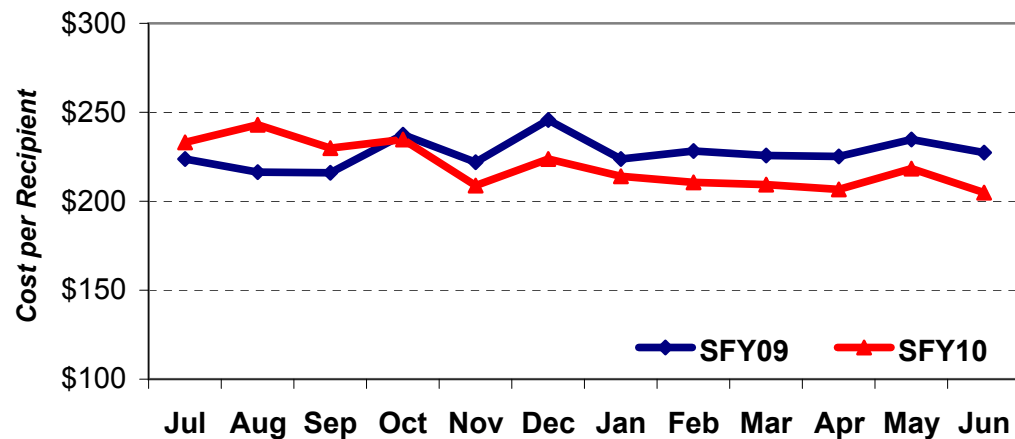
*Denominator in ratios is all eligibles, not just children.

ADULT DENTAL SERVICES - PMPM*
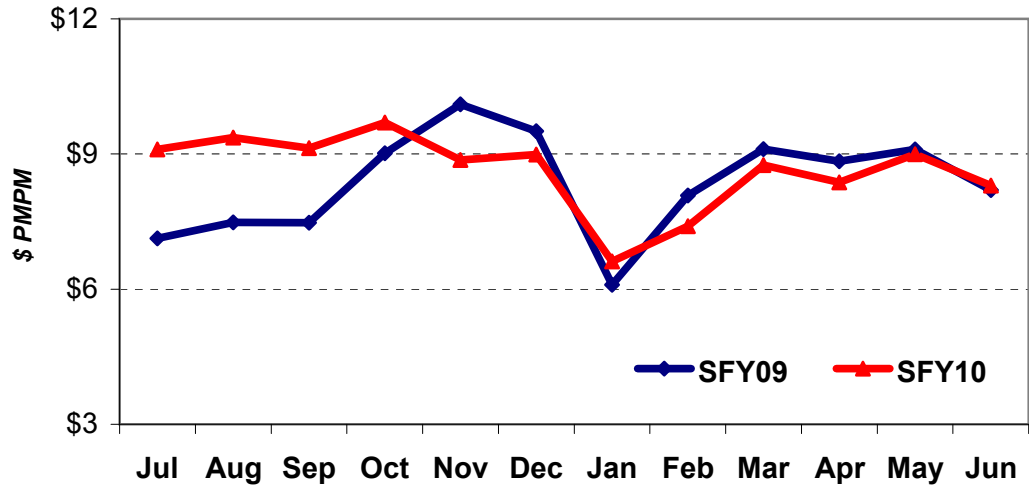
ADULT DENTAL SERVICES - Recipients per 1000 Eligibles*
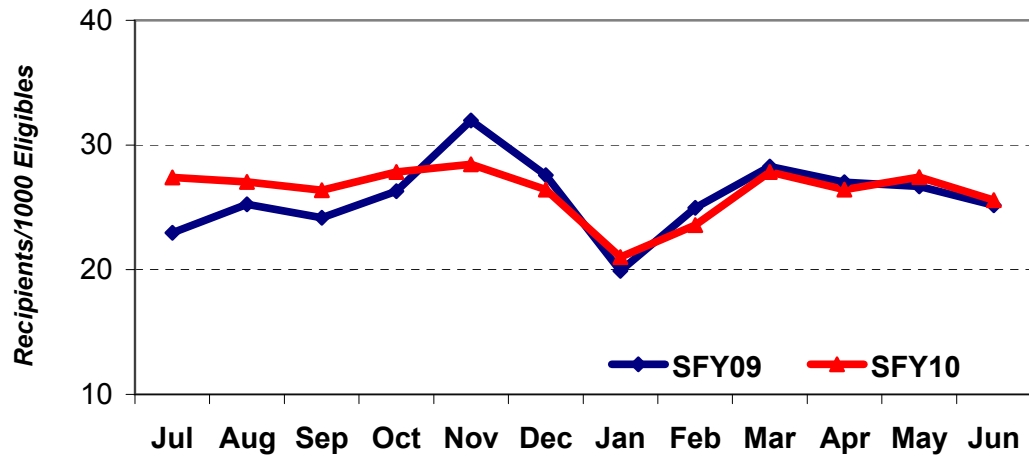
ADULT DENTAL SERVICES - Cost per Recipient
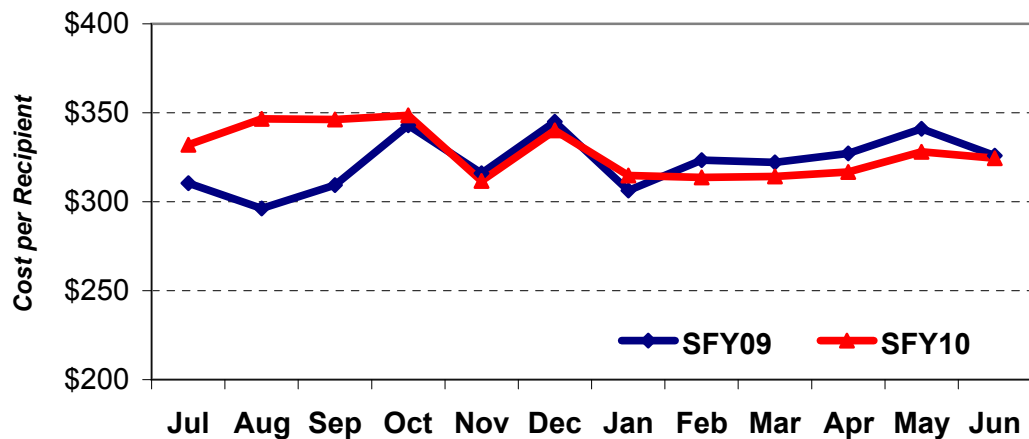
*Denominator in ratios is all eligibles, not just adults.

DENTAL SEALANTS - PMPM*
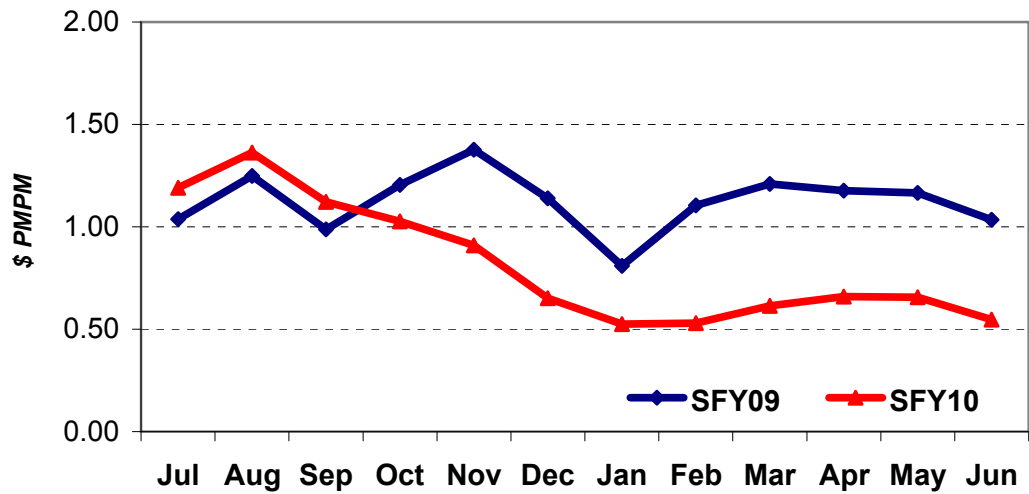
DENTAL SEALANTS - Recipients per 1000 Eligibles*
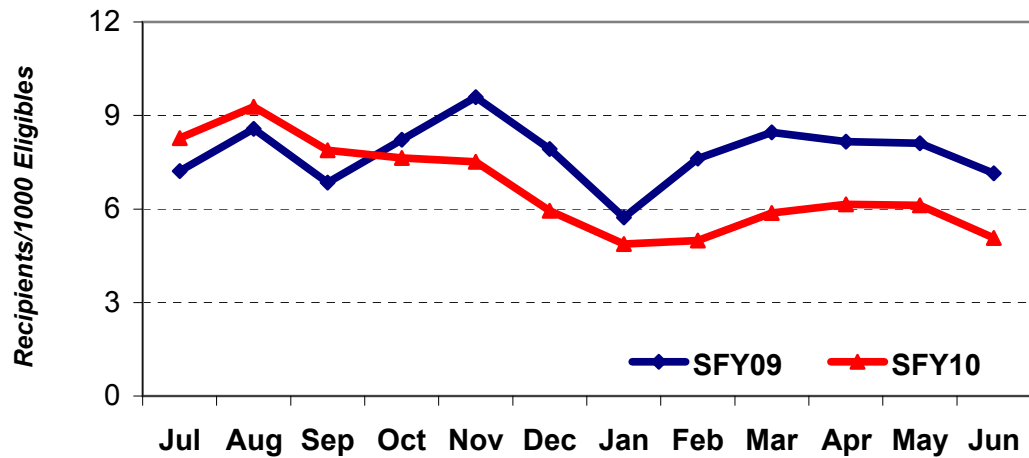
DENTAL SEALANTS - Cost per Recipient
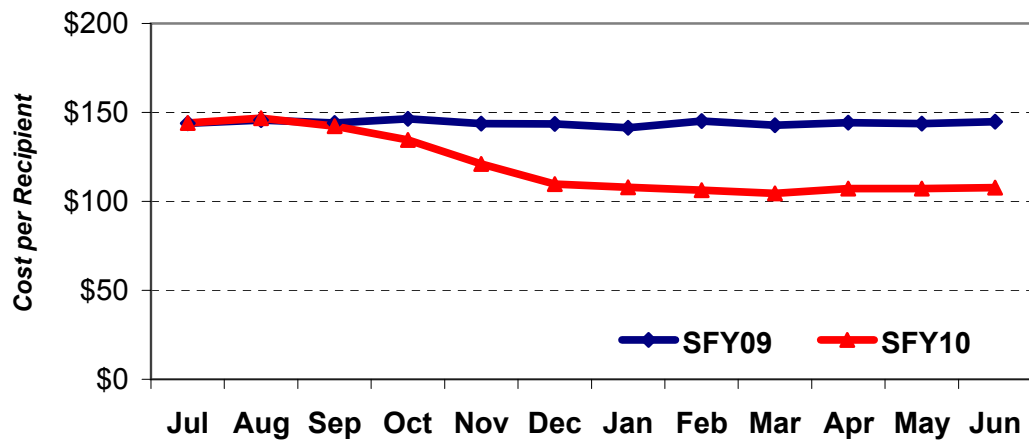
MANAGED CARE DASHBOARD

MANAGED CARE - ENROLLMENT - Recipients per 1000 Eligibles

- — — Planned Mandatory Recipients   — ▲ — Actual Mandatory Recipients
- — · — Planned Optional Recipients   — ■ — Actual Optional Recipients
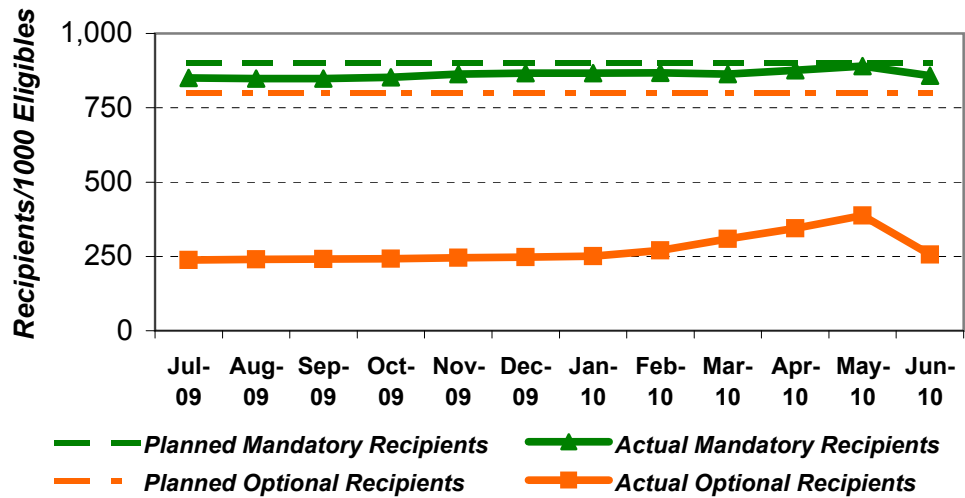
MANAGED CARE - AFTERHOURS RECIPIENTS - Recipients per 1000 Eligibles
(Date of service)

- — — Planned Afterhours Recipients   — ▲ — Actual Afterhours Recipients
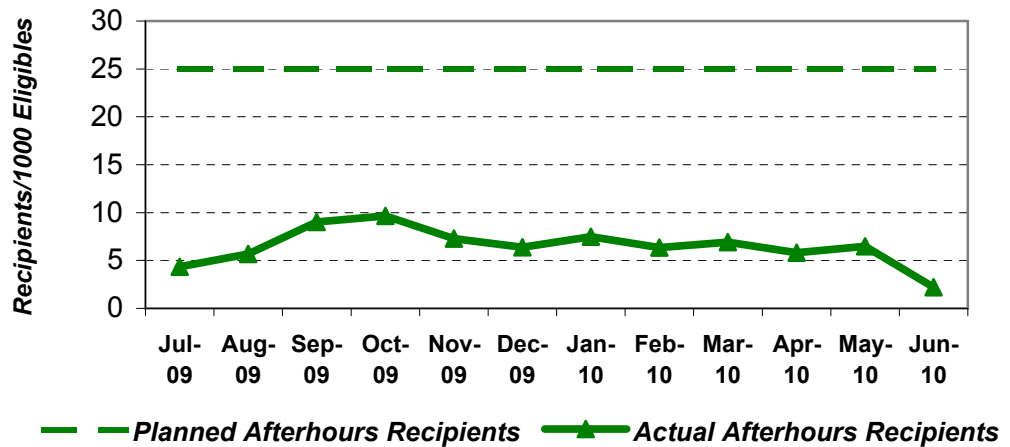
MANAGED CARE - CAROLINA ACCESS - Overrides per Thousand Units
(LOWER IS BETTER)

- — — Planned Overrides   — ▲ — Actual Overrides
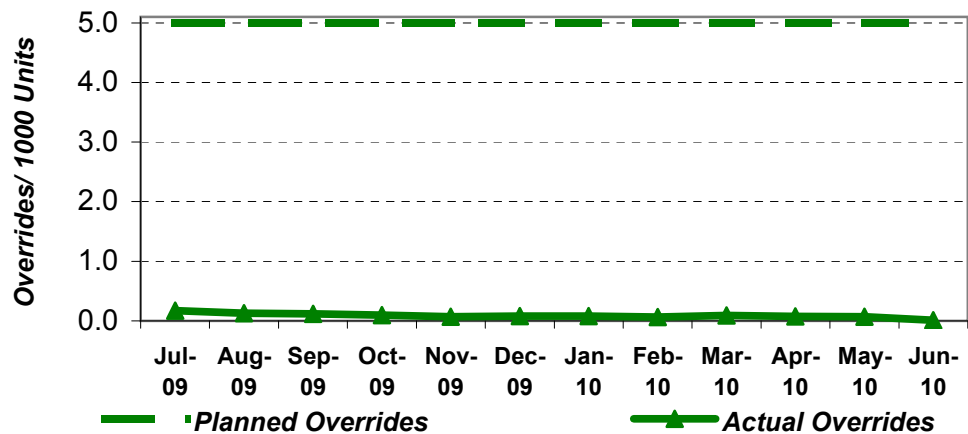
MANAGED CARE - NC ADULT WELLCARE - Recipients per 1000 Eligibles
(HEDIS definitions of WellCare, Date of Service)*
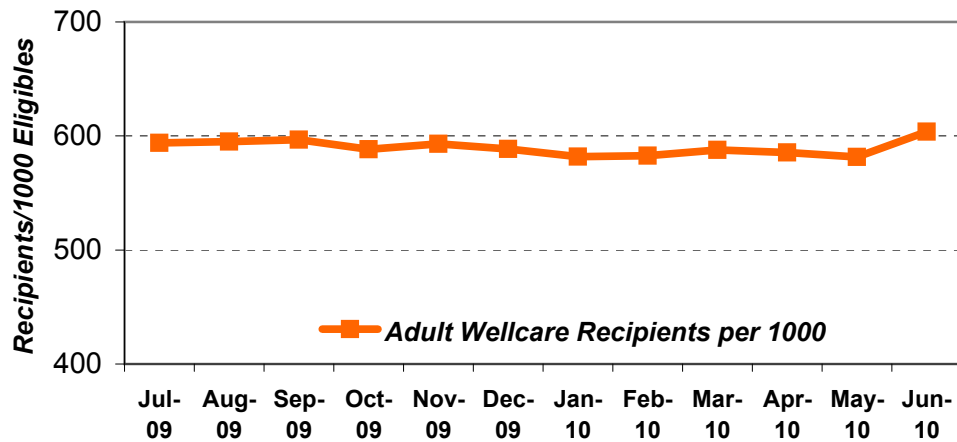
*Most recent month may read high, since dual eligibles are *subtracted* in the formula, and duals can take more than a month to show up in the system.

MANAGED CARE - PCP PROVIDER ENROLLMENT - New Providers Enrolled
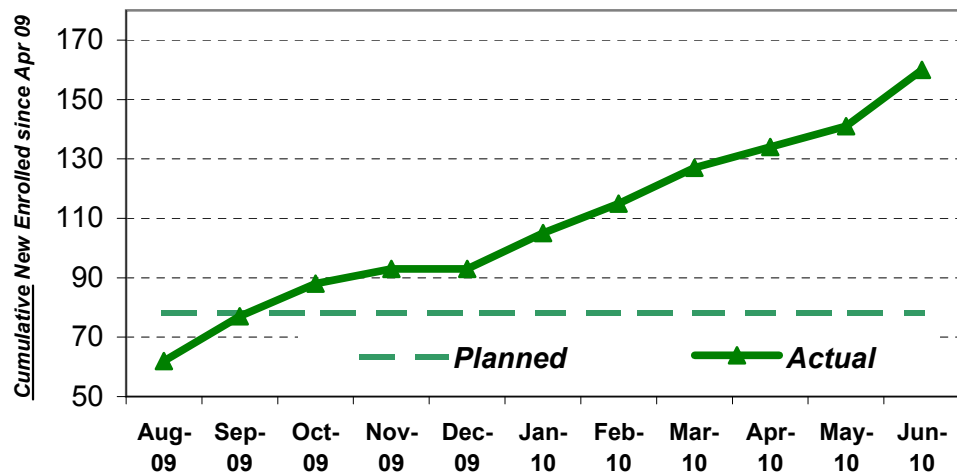
MANAGED CARE - CALLS BY CUSTOMER SERVICE CENTER - % Completed
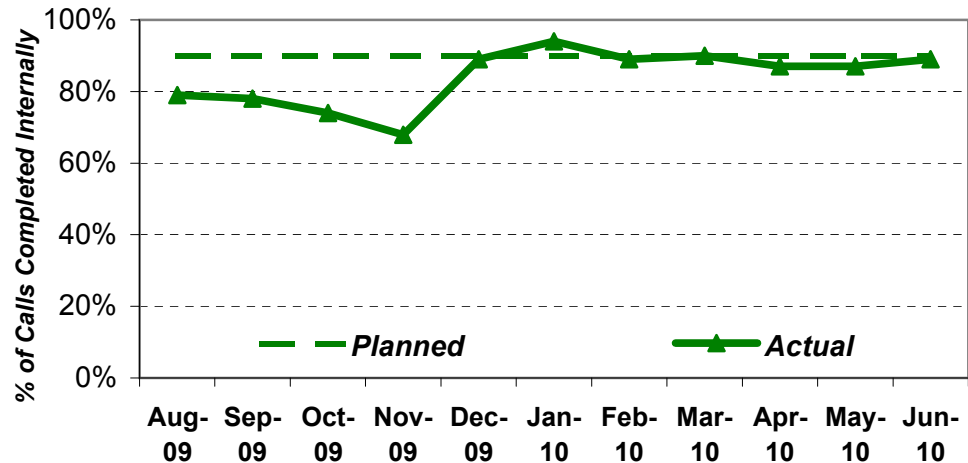
CCNC DASHBOARD

CCNC - Preventable Readmissions as Percent of Total Admissions, Enrolled Nonduals
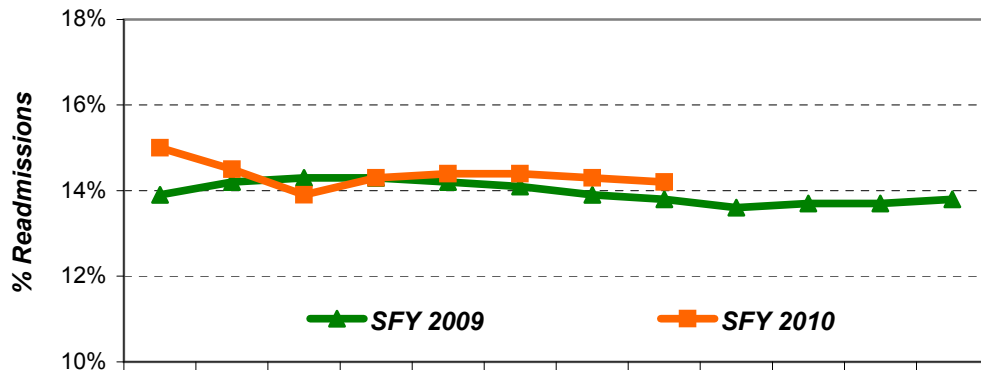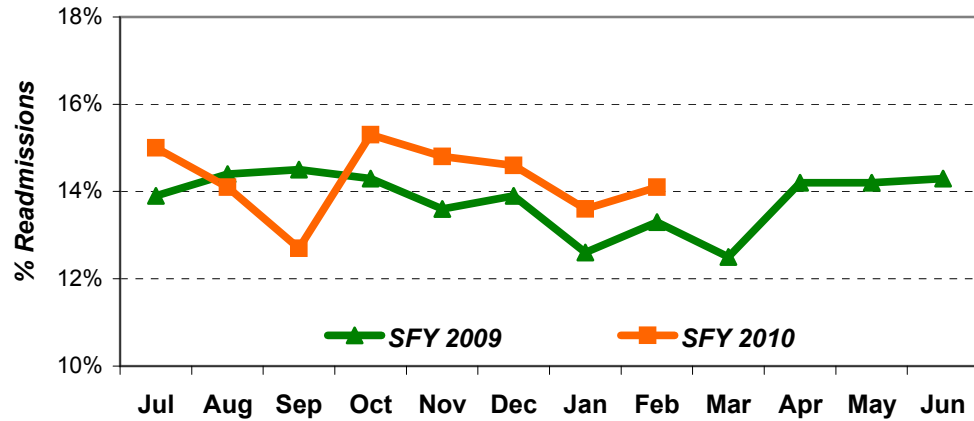
CCNC - Preventable Readmissions (Cumulative)

CCNC - Inpatient Admissions per 1000 MM, Enrolled Non-Dual ABD
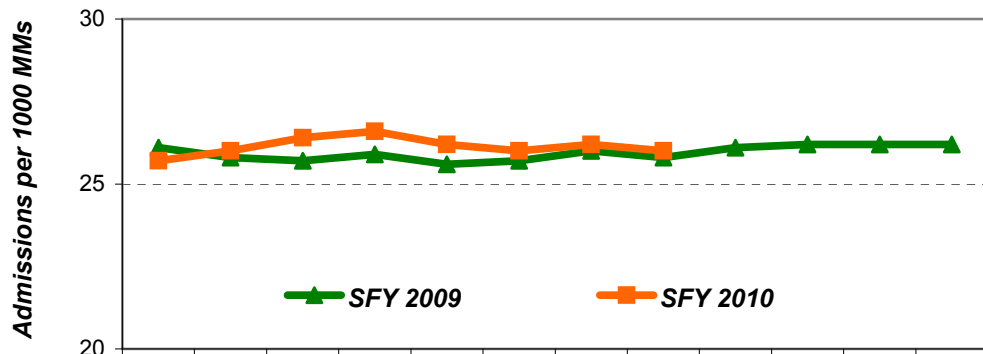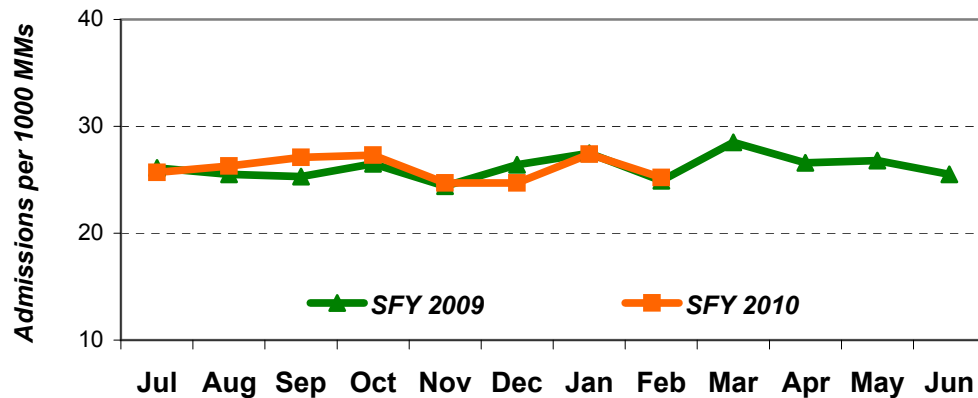
CCNC - Inpatient Admissions per 1000 MM (Cumulative)

CCNC - ED Rate per 1000 MM, Enrolled ABD
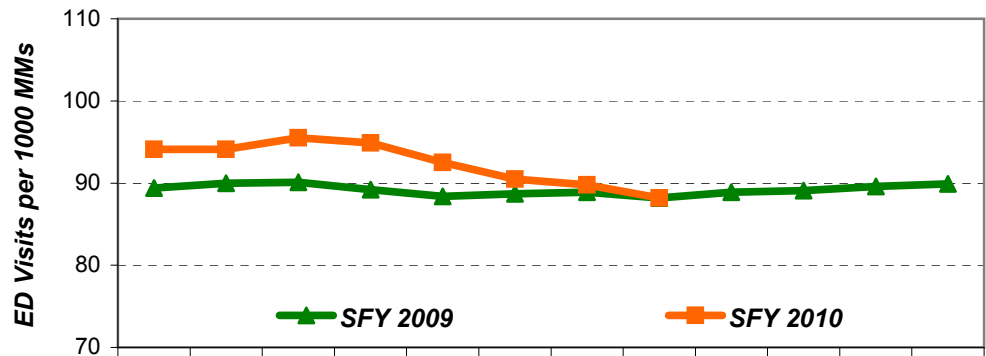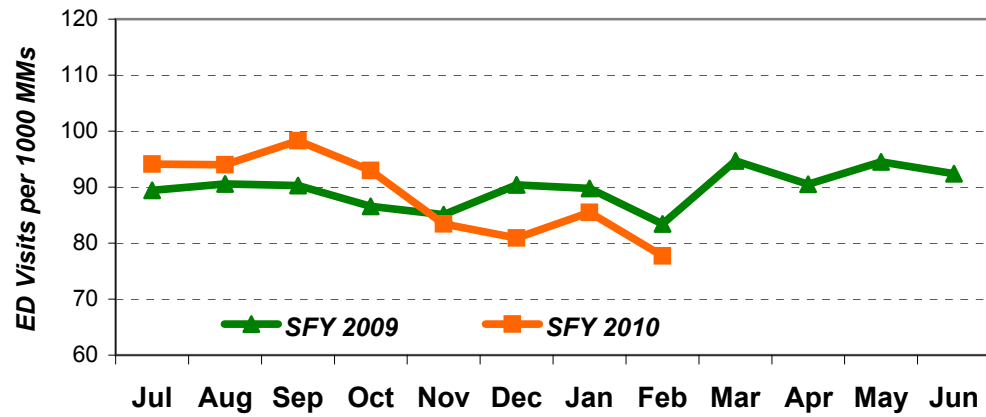
CCNC - ED Rate per 1000 MM (Cumulative)

CCNC - Generic Medications as Percent of all Fills, All Medicaid Non-Duals
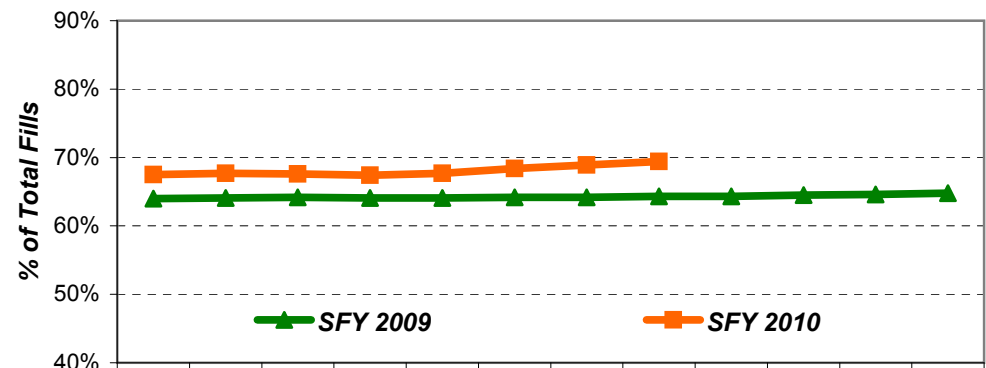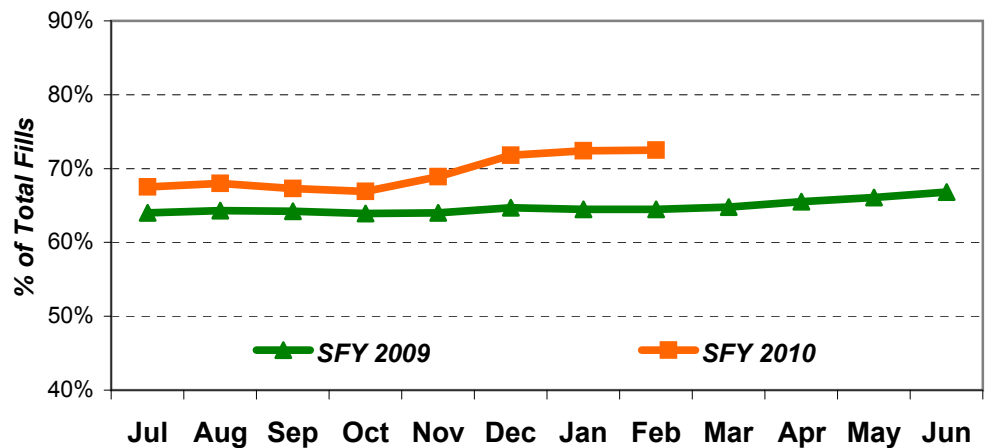
CCNC - Generic Medications as Percent of all Fills (Cumulative)

PROGRAM INTEGRITY DASHBOARD

THIRD PARTY LIABILITY SECTION (one month behind other PI measures)

THIRD PARTY LIABILITY SECTION - Recoupments: Last 12 months
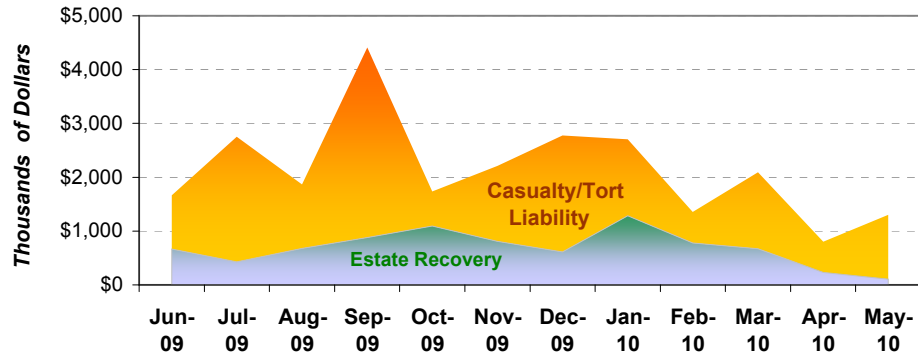
THIRD PARTY LIABILITY SECTION - Vendor Recoupments: Last 12 months
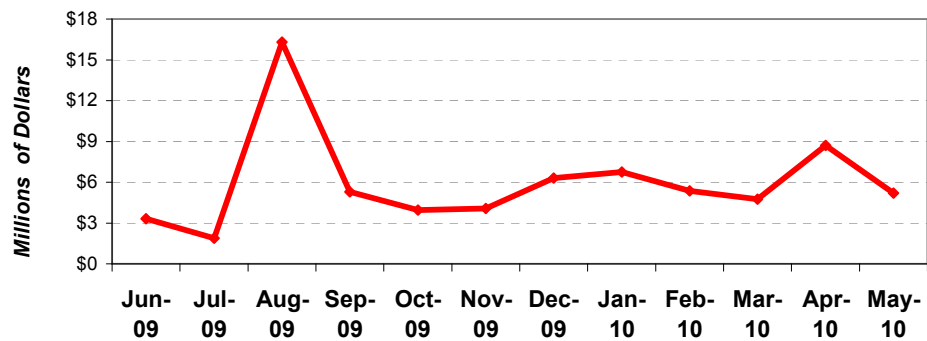
THIRD PARTY LIABILITY SECTION - Number of cases opened and closed: Last 12 months
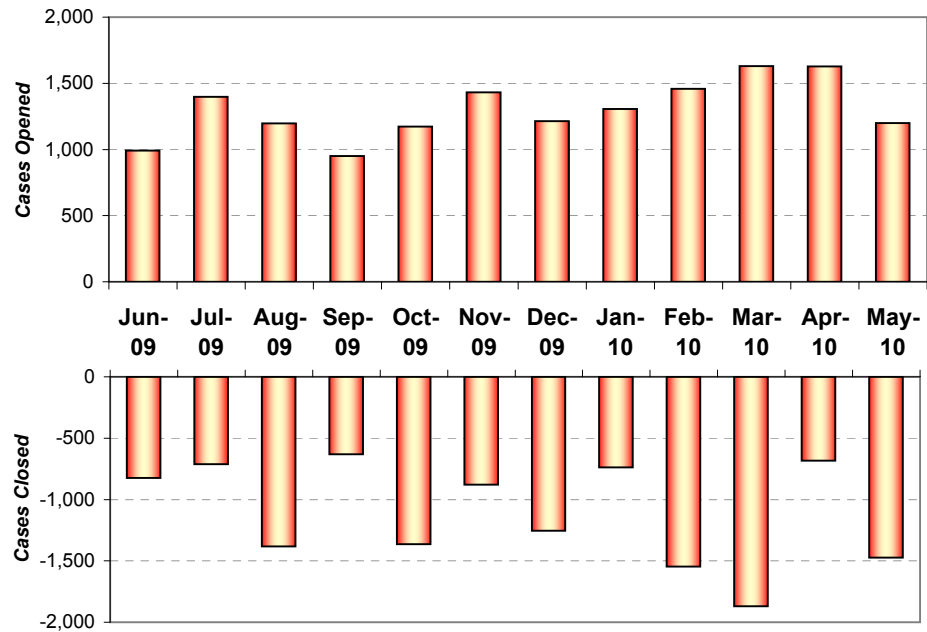
HOME CARE REVIEW SECTION

HOME CARE REVIEW SECTION - Recoupments: Last 12 months

Recoupments by Month reflects the dollar value of the total of the A/R setups & MIU/EDS refunds setup for the month. 2009's Recoupment setup values increased from 1.37 in 2008 to 2.96 million. "Recoupments" refers to the final A/R setup values submitted
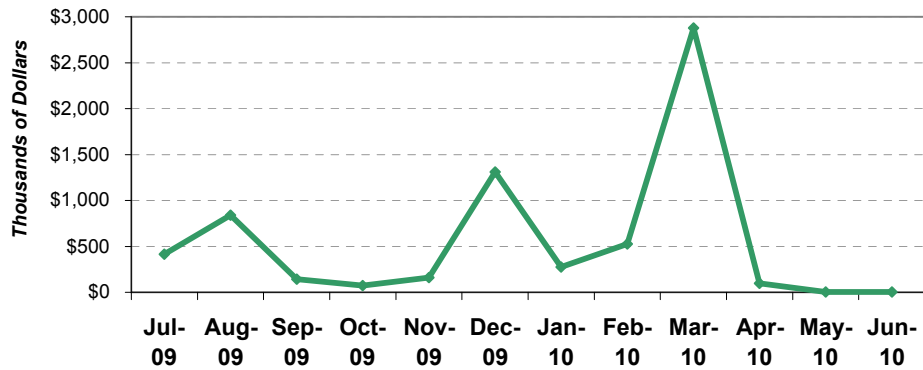
HOME CARE REVIEW SECTION - Number of cases opened and closed: Last 12 months

Cases opened/Closed per month reflects the # of cases that investigators and analysts initiated review process action on or ceased direct activity on (up to the point of A/R setup or final action) due to conclusion of the review for the month.
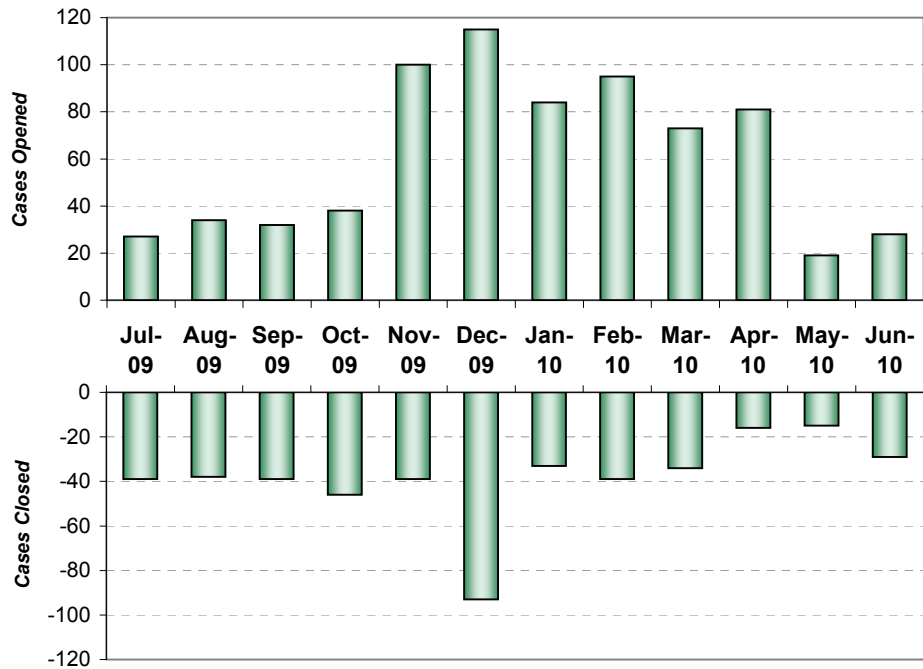
BEHAVIORAL HEALTH REVIEW SECTION

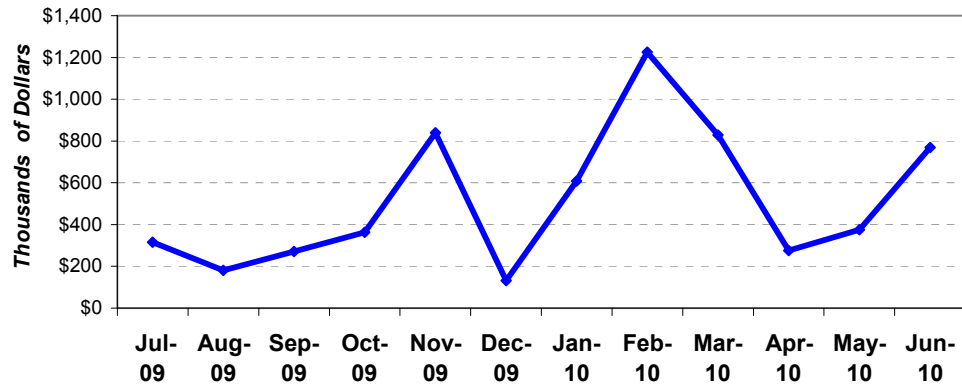*BEHAVIORAL HEALTH REVIEW SECTION - Recoupments: Last 12 months*
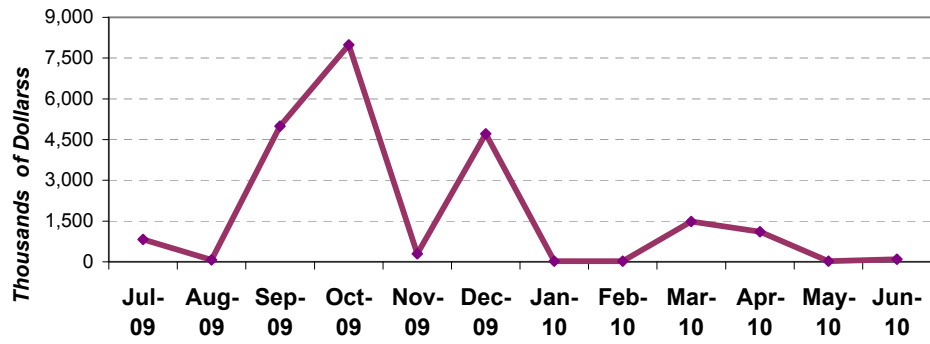
BEHAVIORAL HEALTH REVIEW SECTION - Number of cases opened and closed: Last 12 months
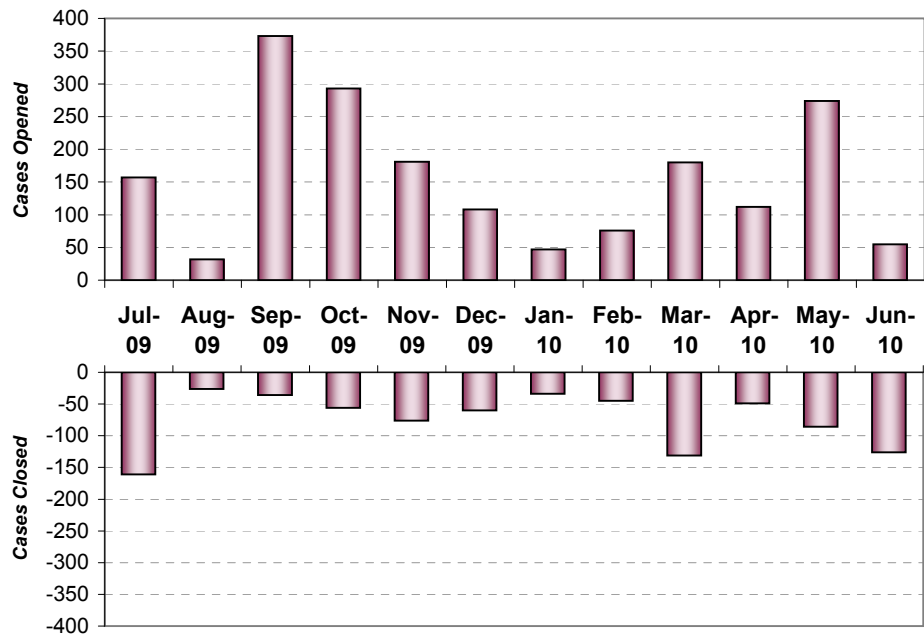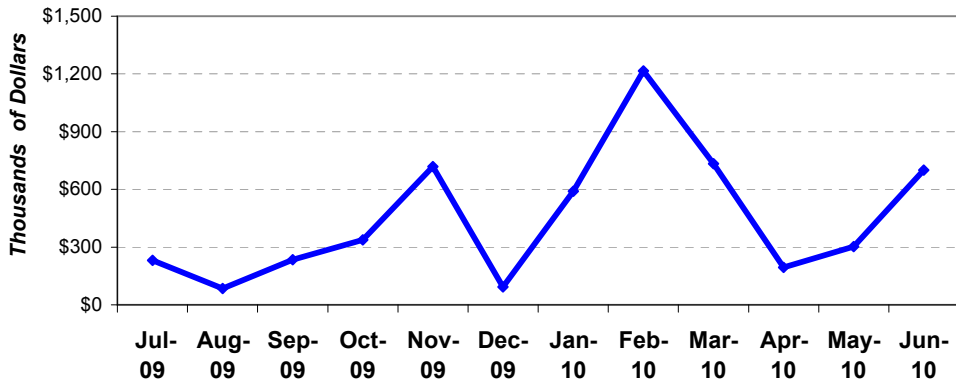
PROVIDER MEDICAL REVIEW SECTION

PROVIDER MEDICAL REVIEW SECTION - Recoupments: Last 12 months

The amounts include cases performed by Provider Medical Review staff, provider self-audits and CCME (contractor) reviews.


PROVIDER MEDICAL REVIEW SECTION - Contractor Recoupments: Last 12 months

The graph compares the total dollars recouped by CCME, the post-payment contractor for DRG reviews, by month for the twelve months since July 2009

**PROVIDER MEDICAL REVIEW SECTION - Number of cases opened and closed: Last 12 months**

Cases include those reviewed by staff, providers by self-audit and CCME.
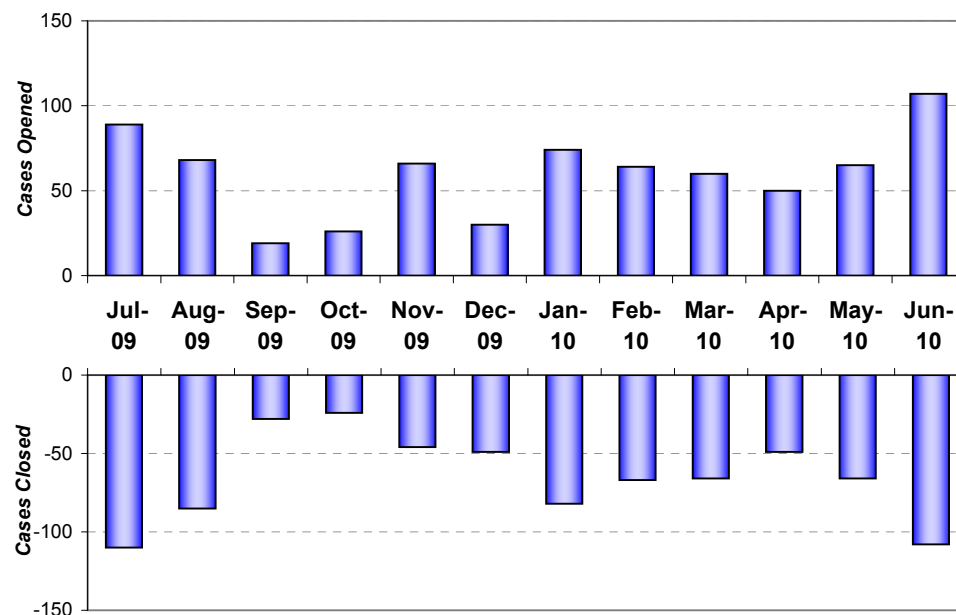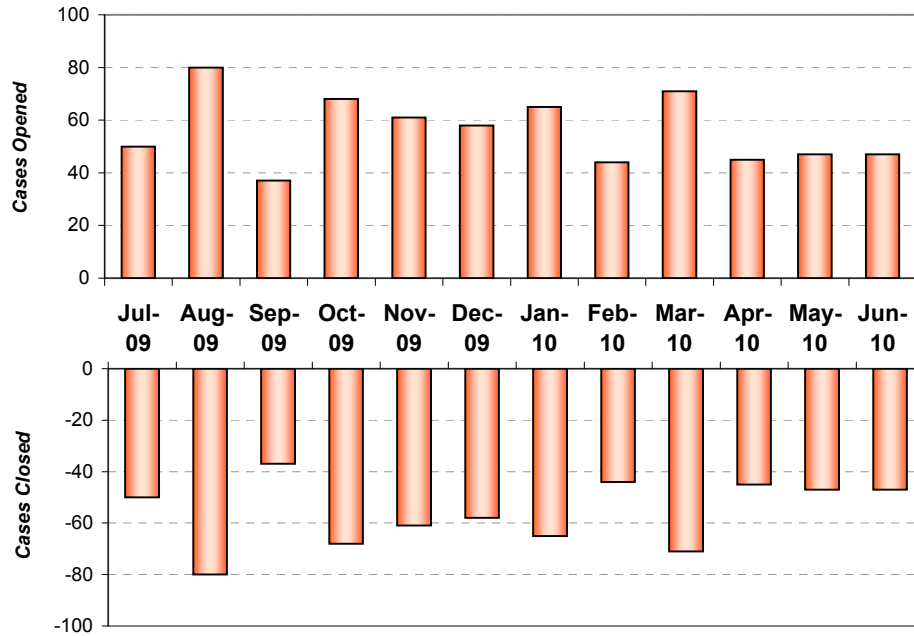
PHARMACY REVIEW SECTION

The Pharmacy Review Section consists of pharmacists, investigators and processing assistants, performing post-payment reviews on claims billed through both chain and independent retail pharmacies.

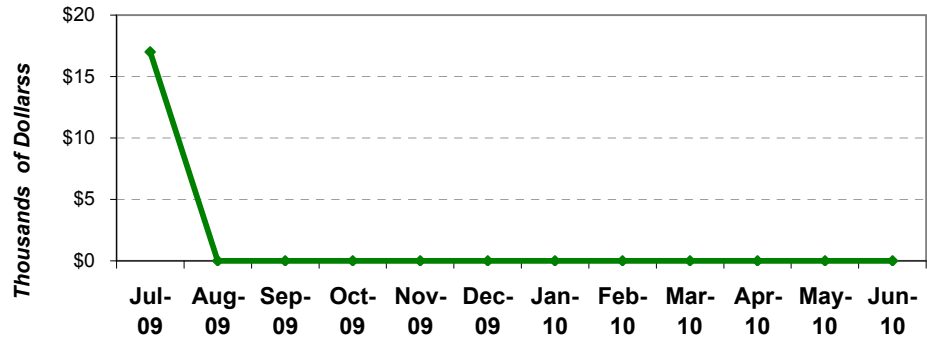**PHARMACY REVIEW SECTION - Recoupments: Last 12 months**
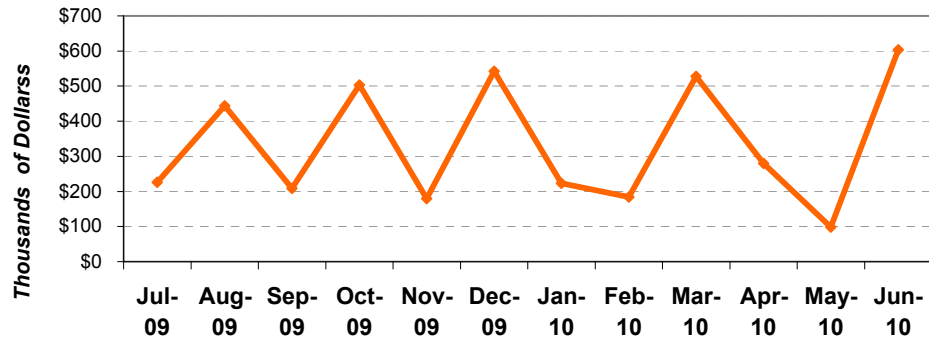
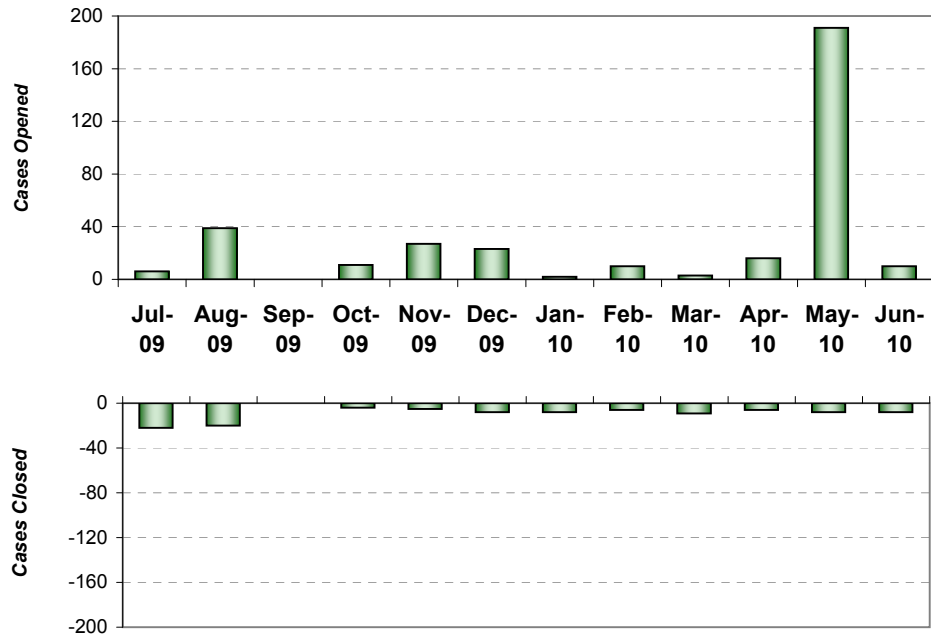**PHARMACY REVIEW SECTION - Number of cases opened and closed: Last 12 months**

SPECIAL PROJECTS SECTION

SPECIAL PROJECTS REVIEW SECTION - Recoupments: Last 12 months

SPECIAL PROJECTS REVIEW SECTION - Number of cases opened and closed: Last 12 months

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ORDERING INFORMATION

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