



Commonwealth of Massachusetts
Office of the State Auditor
Suzanne M. Bump

Making government work better

Official Audit Report – Issued June 29, 2022

Office of Medicaid (MassHealth)—Massachusetts Delivery System Reform Incentive Payment Program

For the period January 1, 2018 through December 31, 2020





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June 29, 2022

Ms. Marylou Sudders, Secretary
Executive Office of Health and Human Services
1 Ashburton Place, 11th Floor
Boston, MA 02108

Dear Ms. Sudders:

I am pleased to provide this performance audit of the Office of Medicaid. This report details the audit objectives, scope, methodology, findings, and recommendations for the audit period, January 1, 2018 through December 31, 2020. My audit staff discussed the contents of this report with management of the agency, whose comments are reflected in this report.

I would also like to express my appreciation to the Office of Medicaid for the cooperation and assistance provided to my staff during the audit.

Sincerely,

A handwritten signature in blue ink, appearing to read "SMB", written over a light blue circular background.

Suzanne M. Bump
Auditor of the Commonwealth

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LIST OF ABBREVIATIONS

ACO	accountable care organization
DSRIP	Delivery System Reform Incentive Payment
MMIS	Medicaid Management Information System
OSA	Office of the State Auditor

EXECUTIVE SUMMARY

The Office of the State Auditor (OSA) receives an annual appropriation for the operation of a Medicaid Audit Unit to help prevent and identify fraud, waste, and abuse in the Commonwealth's Medicaid program. This program, known as MassHealth, is administered under Chapter 118E of the Massachusetts General Laws by the Executive Office of Health and Human Services, through the Division of Medical Assistance. Medicaid is a joint federal-state program created by Congress in 1965 as Title XIX of the Social Security Act. At the federal level, the Centers for Medicare & Medicaid Services, within the United States Department of Health and Human Services, regulate Medicaid services and work with state governments to administer their Medicaid programs.

OSA has conducted an audit of certain payments made by MassHealth under the Delivery System Reform Incentive Payment (DSRIP) Program for the period January 1, 2018 through December 31, 2020. During this period, MassHealth transitioned to the accountable care organization (ACO) care model, which ensures that healthcare organizations in each ACO's network are responsible for the quality, experience, and cost of healthcare for MassHealth members. To do this, MassHealth disbursed approximately \$500,176,599 to its ACOs.

The purpose of this audit was to determine whether MassHealth effectively administered DSRIP Program payments to ACOs in accordance with its *Massachusetts Delivery System Reform Incentive Payment (DSRIP) Protocol (Attachment M)*. OSA conducted the audit as part of our ongoing independent statutory oversight of the state's Medicaid program.

Below is a summary of our finding and our recommendation, with links to each page listed.

Finding 1 Page 6	MassHealth did not ensure that ACOs submitted their budget proposals before the beginning of the budget period.
Recommendation Page 6	MassHealth should establish monitoring activities to ensure that every ACO submits its budget proposal before the beginning of each budget period.

OVERVIEW OF AUDITED ENTITY

Under Chapter 118E of the Massachusetts General Laws, the Executive Office of Health and Human Services, through the Division of Medical Assistance, administers the state's Medicaid program, known as MassHealth. MassHealth provides access to healthcare services for approximately 1.8 million eligible low- and moderate-income children, families, seniors, and people with disabilities annually. In fiscal year 2021, MassHealth paid healthcare providers more than \$18.1 billion, of which approximately 45% was funded by the Commonwealth. Medicaid expenditures represent approximately 40% of the Commonwealth's total annual budget.

Section 1115 Demonstration Waiver

Section 1115 of the Social Security Act grants the United States Department of Health and Human Services the authority to approve demonstration projects that may help promote the objectives of the Medicaid program. Demonstration projects allow the Centers for Medicare & Medicaid Services to examine the potential effects of program changes, such as new payment processes, coverage types, or service delivery methods. These projects give MassHealth the flexibility to improve its services.

Delivery System Reform Incentive Payment Program

In 2016, Massachusetts began efforts to restructure its Medicaid program. MassHealth established a new five-year Section 1115 demonstration waiver with the federal government, effective July 1, 2017 through June 30, 2022, that authorizes it to allow integrated care to be provided by accountable care organizations (ACOs), community partners, and community service agencies, which are all health service organizations that provide specialized care to MassHealth members. This waiver came with a one-time federal investment of \$1.8 billion for the Delivery System Reform Incentive Payment (DSRIP) Program. The DSRIP Program's goal is to restructure the way MassHealth delivers healthcare to its members by funding ACOs, community partners, and community service agencies to better coordinate care and to ensure the accountability of providers for the cost and quality of the care they provide.

ACOs

ACOs are networks of physicians, hospitals, and other community-based healthcare providers that are responsible for coordinating all of a member's medical care, behavioral health services, and long-term services and supports. There are currently 17 approved ACOs in Massachusetts that partnered with

MassHealth on March 1, 2018 to provide healthcare to approximately 850,000 of its members. Approximately \$1 billion of the total \$1.8 billion of DSRIP Program funding will be paid to ACOs by the end of the Section 1115 demonstration waiver period, in June 2022.

Budget Approval Process

Since the inception of the DSRIP Program on July 1, 2017, MassHealth has contracted with Public Consulting Group as the DSRIP Program's independent assessor. The independent assessor is responsible for reviewing DSRIP Program budget proposals submitted by ACOs, community partners, and community service agencies.

To receive DSRIP Program funding, ACOs submit their budget proposals to MassHealth within 30 calendar days after MassHealth prompts them to do so. After receiving the proposals, MassHealth and the independent assessor separately review them. MassHealth and/or the independent assessor may request additional information or clarification regarding an ACO's budget proposal.

When the independent assessor completes its review, it notifies MassHealth of its recommendation to approve, deny, or propose revisions to a budget proposal. If the proposed revisions are made, the independent assessor reviews the revised budget proposal before making its final recommendation to MassHealth. If the final recommendation is to deny the proposal, MassHealth can override the recommendation and approve the proposal. In this situation, MassHealth publishes its rationale for the override in a quarterly report it is required to submit to the Centers for Medicare & Medicaid Services.

Each ACO's budget proposal must receive final approval from MassHealth to receive DSRIP Program funding. However, if an ACO does not have all the data it needs to calculate and submit its budget proposal before August of the preceding calendar year, MassHealth can approve a preliminary funding amount. According to MassHealth's *Massachusetts Delivery System Reform Incentive Payment (DSRIP) Protocol (Attachment M)*, MassHealth can provide an ACO with its first quarterly payment with only this preliminary approval. After MassHealth grants final approval, MassHealth may make quarterly payments to the ACO for the rest of the calendar year.

AUDIT OBJECTIVES, SCOPE, AND METHODOLOGY

In accordance with Section 12 of Chapter 11 of the Massachusetts General Laws, the Office of the State Auditor (OSA) has conducted a performance audit of certain activities of the Office of Medicaid (MassHealth) for the period January 1, 2018 through December 31, 2020.

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.

Below is our audit objective, indicating the question we intended our audit to answer, the conclusion we reached regarding the objective, and where the objective is discussed in this report.

Objective	Conclusion
Did MassHealth ensure that Delivery System Reform Incentive Payment (DSRIP) Program funding was allocated to accountable care organizations (ACOs) in accordance with Sections 3.3 and 3.4.4.1 of its <i>Massachusetts Delivery System Reform Incentive Payment (DSRIP) Protocol (Attachment M)</i> ?	No; see Finding <u>1</u>

To achieve our audit objective, we gained an understanding of the internal control environment related to the objective by reviewing applicable MassHealth policies and procedures and interviewing MassHealth officials who are responsible for oversight of the DSRIP Program. We evaluated the design and operating effectiveness of internal controls related to the ACO budget approval process. Specifically, we performed control testing to determine whether each ACO's budget proposal was approved by the DSRIP Program's independent assessor.

We performed the following procedures to obtain sufficient, appropriate audit evidence to address the audit objective.

We determined whether MassHealth ensured that DSRIP Program funding was allocated to ACOs in accordance with the *Massachusetts Delivery System Reform Incentive Payment (DSRIP) Protocol (Attachment M)*. To do this, we verified that ACOs submitted DSRIP Program budgets in calendar years 2018, 2019, and 2020 (MassHealth provided these budgets to us as Excel spreadsheets) before the

beginning of the budget period, which starts January 1 of each calendar year, as required by the protocol. We inspected the original emails ACOs had sent to MassHealth with the budgets attached to verify that each email date was before the beginning of the budget period. We then compared the dates of budget approvals by the independent assessor to the dates of quarterly funding disbursements, obtained from the Medicaid Management Information System (MMIS), to determine whether each ACO budget was approved before MassHealth disbursed funding. If an ACO revised its budget after the first quarter, we verified that the independent assessor approved the revised budget before MassHealth issued subsequent quarterly payments.

Data Reliability

We obtained DSRIP Program transaction data from MMIS for testing purposes. To test the reliability of the data, we relied on the work performed by OSA in a separate project, completed in 2018, that tested certain information system controls in MMIS. As part of that work, OSA reviewed existing information, tested selected system controls, and interviewed knowledgeable MassHealth officials about the data. As part of our current audit, we performed validity and integrity tests on all DSRIP Program transaction data, including (1) testing for blank fields, (2) scanning for duplicate records, (3) looking for dates outside the audit period, and (4) looking for duplicate check numbers. Additionally, to determine the completeness and accuracy of the data, we selected a random sample of 20 DSRIP Program transactions from MMIS and traced the dates of payment and total budgeted amounts to budget source documentation. We also sampled 20 DSRIP Program transactions from budget source documentation and vouched¹ to MMIS. Based on these procedures, we determined that the data obtained were sufficiently reliable for the purposes of this report.

1. Vouching is the inspection of supporting documentation to corroborate data.

DETAILED AUDIT FINDINGS WITH AUDITEE'S RESPONSE

1. MassHealth did not ensure that accountable care organizations submitted their budget proposals before the beginning of the budget period.

In our review of accountable care organizations' (ACOs') budget proposals from the audit period, we found that MassHealth did not always ensure that ACOs submitted their budget proposals for Delivery System Reform Incentive Payment (DSRIP) Program funding before the beginning of the budget period. Late submissions of budget proposals may prevent MassHealth from achieving the goals of the DSRIP Program and from making timely payments to ACOs; it could also affect healthcare services provided to MassHealth members.

In 2020, none of the 17 ACOs that received DSRIP Program funding submitted a budget proposal to MassHealth until after the beginning of the budget period. In 2018, 1 ACO did not submit its budget proposal until after the beginning of the budget period.

Authoritative Guidance

According to Section 3.3 of the *Massachusetts Delivery System Reform Incentive Payment (DSRIP) Protocol (Attachment M)*,

Each ACO . . . will submit a Budget and Budget Narrative to MassHealth for approval for each budget period. ACOs will submit a Budget and Budget Narrative to the State prior to each budget period.

Reasons for Issue

MassHealth lacks specific monitoring activities to ensure that every ACO submits its budget proposal before the beginning of each budget period.

Recommendation

MassHealth should establish monitoring activities to ensure that every ACO submits its budget proposal before the beginning of each budget period.

Auditee's Response

We presented the draft audit report to MassHealth on April 20, 2022 for its response. MassHealth stated that it disagreed with our finding and provided us with an additional response; we updated the report accordingly and submitted the updated report to MassHealth. Below is its response to the original report.

While MassHealth acknowledges that ACOs did not, in every case, submit budgets to MassHealth prior to the formal start of a given budget period, these cases were consistent with and contemplated by the DSRIP Protocol explicitly. Specifically, the DSRIP Protocol permits MassHealth to "work with ACOs who request additional time or fail to respond in a timely fashion to ensure prompt submission." (DSRIP Protocol Section 3.4.4.1.) In all cases cited by [the Office of the State Auditor, or OSA], MassHealth did in fact oversee the ACOs' development and submission of budgets, which were all successfully submitted in accordance with MassHealth directions and revised timelines, and approved. MassHealth therefore disagrees that any additional monitoring activities are needed. In addition, in response to OSA's statement that a delay in the submission of budgets could impact healthcare services provided to members, MassHealth wishes to clarify that DSRIP payments support activities such as ACO population health management and care coordination, rather than funding covered healthcare services for members.

In its response to the updated report, MassHealth states,

MassHealth further clarifies that any submissions by ACOs following the beginning of the budget period were made in accordance with MassHealth-established deadlines. In all cases cited by OSA, MassHealth did in fact oversee the ACOs' development and submission of budgets, which were all successfully submitted in accordance with MassHealth directions and revised timelines, and approved. MassHealth therefore disagrees that any additional monitoring activities are needed.

Importantly, OSA acknowledges that it has not identified any discrepancies between approved ACO budgets and MassHealth payment disbursements. . . . The OSA's findings are based solely on matters of timing of approvals, with which MassHealth reiterates its strong disagreement, for the reasons set forth above and in MassHealth's original response.

Auditor's Reply

MassHealth states that the DSRIP Protocol permits it to "work with ACOs who request additional time or fail to respond in a timely fashion to ensure prompt submission." Although we do not dispute this fact, MassHealth did not provide us with any documentation to substantiate that any of the ACOs that had failed to submit their budgets within the prescribed timeframe had requested MassHealth's assistance. We believe that a proper monitoring process would involve determining which ACOs will need budgeting assistance before the beginning of the budgeting process, working with them so that their budget requests can be submitted within the prescribed timeline, and documenting the process. MassHealth did not give us any documentation of the measures it took to help ACOs with their budgeting activities, but any

measures it took do not appear to have been very effective, because as noted above, in 2020 none of the 17 ACOs that received DSRIP Program funding submitted a budget proposal to MassHealth until after the beginning of the budget period. Therefore, we urge MassHealth to implement our recommendation of establishing monitoring activities to ensure that every ACO submits its budget proposal before the beginning of each budget period.

This report does not state that DSRIP Program payments directly fund healthcare services. Rather, it states that any issues with the funding of health management and care coordination could affect the healthcare that MassHealth members receive.