

## Audit Report

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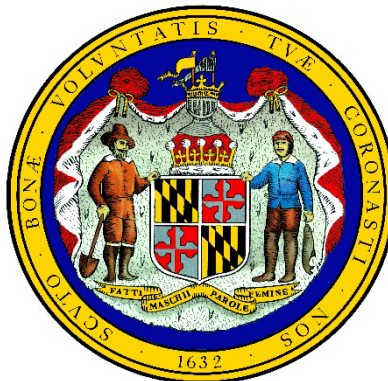
**Maryland Department of Health  
Behavioral Health Administration and Medical Care Programs  
Administration  
Administrative Service Organization for  
Behavioral Health Services**

October 2025

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**In compliance with the requirements of the State Government Article Section 2-1224(i), of the Annotated Code of Maryland, the Office of Legislative Audits has redacted a reference to cybersecurity information from this public report.**



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**DEPARTMENT OF LEGISLATIVE SERVICES**  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

October 3, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee  
Delegate Jared Solomon, House Chair, Joint Audit and Evaluation Committee  
Members of Joint Audit and Evaluation Committee  
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – Behavioral Health Administration (BHA) and the Medical Care Programs Administration (MCPA) Administrative Service Organization (ASO) for Behavioral Health Services for the period beginning July 1, 2021 and ending October 31, 2024.

BHA is responsible for operating the Public Behavioral Health System to provide mental health and substance-related disorder services to the citizens of Maryland. MCPA is responsible for overseeing the ASO which pays provider claims, determines behavioral health recipient eligibility, authorizes recipient services, and performs oversight of providers.

Our audit disclosed that BHA and MCPA did not ensure that claims paid by the ASO were proper and supported, that overpayments identified were recovered, and that necessary corrective or disciplinary actions were taken. Similar conditions have been commented upon in one or more of our three preceding audit reports dating back to August 2017 but not sufficiently corrected. In addition, BHA did not conduct required audits to ensure that the ASO properly authorized behavioral health services, a condition commented upon in our two preceding audit reports dating back to January 2020 but not corrected.

Our audit further noted that MCPA did not timely investigate and resolve claims paid by the ASO that were denied for federal reimbursement or approved for an amount that was different than the amount paid. Our review of MCPA records as of December 6, 2024 disclosed there were approximately 19,700 unresolved denied claims totaling \$5.8 million, certain of which dated back to October 2017. This condition was commented on in our prior report but not corrected.

Finally, MDH circumvented State procurement regulations to obtain information technology consulting services for the ASO system and could not support that costs were reasonable, a condition commented on in our prior report but not corrected.

In our preceding audit report, dated October 25, 2022, we reported that MDH's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Based on the results of our current audit, we have concluded that MDH has made improvements in its fiscal and compliance operations and, accordingly, MDH's accountability and compliance level is no longer unsatisfactory.

MDH's response to this audit, on behalf of BHA and MCPA, is included as an appendix to this report. We reviewed the response and noted agreement to our findings and related recommendations and will notify MDH of any needed clarification to ensure the responses sufficiently address the related findings.

We wish to acknowledge the cooperation extended to us during the audit by BHA and MCPA.

Respectfully submitted,

*Brian S. Tanen*

Brian S. Tanen, CPA, CFE  
Legislative Auditor

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## **Background Information**

### **Agency Responsibilities**

The Behavioral Health Administration (BHA) of the Maryland Department of Health (MDH) is responsible for operating the Public Behavioral Health System (PBHS). PBHS provides mental health and substance-related disorder (including drug, alcohol, and gambling addictions) services to the citizens of Maryland through private for-profit and non-profit community-based providers, local health department clinics, and State operated facilities. These services are financed through a combination of grants and contracts with vendors and direct reimbursements through a fee-for-service system operated by an Administrative Service Organization (ASO) under contract with MDH's Medical Care Programs Administration (MCPA).

The ASO pays provider claims through its fee-for-service system, determines behavioral health recipient eligibility, authorizes recipient services, and performs oversight of providers to ensure the propriety and accuracy of claims and related services. The ASO contract in effect during our audit period covered services for the five-year period from January 2020 through December 2024, for which payments to the ASO totaled \$124.7 million.

The scope of this audit includes BHA's responsibilities in overseeing the PBHS and MCPA's monitoring of the ASO contract deliverables, claims processing (including denied claims), provider audits, and information systems security. Separate audits are conducted of MCPA's primary functions (such as recipient eligibility, long-term care, and hospital services), MCPA's monitoring of Managed Care Organizations, and the MCPA pharmacy programs. In addition, the administration of the behavioral health facilities was transferred from BHA to the Office of the Deputy Secretary for Operations effective May 2019 and was included in our audit of the Maryland Department of Health Office of the Secretary.

According to the State's records, BHA's expenditures, excluding fee-for-service payments processed by the ASO, were primarily for mental health and substance-related disorder programs and services, and totaled approximately \$465 million during fiscal year 2024 (See Figure 1). For the same fiscal year, behavioral health claims disbursements made by the ASO from two State-funded bank accounts totaled \$2.9 billion. These disbursements have significantly increased during the audit period (from \$1.8 billion in fiscal year 2021) primarily due to higher enrollment and utilization of services as well as several increases in provider

reimbursement rates. The vast majority of claims were eligible for federal fund participation (reimbursement), which is normally at least 50 percent of the amount paid.

During the period of June 30, 2021 through June 30, 2024, BHA had vacancy rates that ranged from 5.7 percent to 25.5 percent. As of June 30, 2024, approximately 25.5 percent of the total 165 positions were vacant. These vacancies may have contributed, at least in part, to the findings in this report. Although not reflected in Figure 1, MCPA advised there are an additional 7 full-time positions dedicated to the administration of the ASO vendor, as of June 30, 2024.

**Figure 1**  
**BHA and MCPA ASO**  
**Positions, Expenditures, and Funding Sources**

Full-Time Equivalent Positions as of June 30, 2024	
	Positions
Filled	123
Vacant <sup>1</sup>	42
<b>Total</b>	<b>165</b>
Fiscal Year 2024 Expenditures	
	Expenditures
Salaries, Wages and Fringe Benefits	\$ 16,836,488
Technical and Special Fees	6,400,236
Operating Expenses	441,878,765
Fee-for-Service Claims <sup>2</sup>	2,860,690,544
<b>Total</b>	<b>\$ 3,325,806,033</b>
Fiscal Year 2024 Funding Sources	
	Funding
General Fund	\$ 1,357,328,726
Special Fund	44,888,744
Federal Fund	1,917,643,177
Reimbursable Fund	5,945,386
<b>Total</b>	<b>\$ 3,325,806,033</b>

Source: State financial and personnel records

## Estimated Payments to Providers Update

In our preceding audit report we noted that numerous deficiencies with the ASO's claim processing ultimately required the issuance of \$1.06 billion in estimated payments to providers, including \$223.5 million that had not been supported or recovered as of December 2021. According to MDH records, \$186 million of this

<sup>1</sup> In accordance with Chapter 101, Laws of Maryland of 2023, on October 25, 2023 BPW approved MDH's request to convert 180 contractual positions to 144 regular positions. The vacancies include 19 converted positions. BHA also added 13 new administrative positions for oversight over mental health and substance abuse programs and grants.

<sup>2</sup> Fee-for-service expenditures are processed by the ASO for Medicaid eligible consumers and include \$75.2 million in State funded services under BHA. The remaining expenditures are for services that are at least partially federally funded.



amount had been offset, recovered, or forgiven, as of September 2024. The remaining \$37.5 million was referred to the State's Central Collection Unit.

### **Loss of Enhanced Federal Funding**

During our preceding audit report, we noted the ASO's failure to comply with certain contract requirements prevented MCPA from qualifying for enhanced federal funding for the operational cost of the ASO. MDH management advised the ASO was ultimately never able to meet these requirements, resulting in MDH not obtaining approximately \$22.2 million in enhanced federal funding.

### **Status of Findings From Preceding Audit Report**

Our audit included a review to determine the status of the nine findings contained in our preceding audit report dated October 25, 2022. See Figure 2 for the results of our review.

In our preceding audit report, we reported that MDH's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Based on the results of our current audit, we have concluded that MDH has improved its fiscal and compliance operations to the point that MDH's accountability and compliance level is no longer unsatisfactory.

**Figure 2**  
**Status of Preceding Findings**

<b>Preceding Finding</b>	<b>Finding Description</b>	<b>Implementation Status</b>
Finding 1	The MCPA evaluation of the ASO technical proposals was not sufficiently comprehensive or documented.	Not repeated
Finding 2	MCPA did not ensure that the ASO's claim processing system was functioning prior to launch, resulting in numerous system deficiencies that ultimately required the ASO to make \$1.06 billion in estimated payments to providers, of which approximately \$223.5 million has not been supported or recovered.	Not repeated
Finding 3	MDH did not conduct audits to ensure that the ASO properly authorized behavioral health services.	<b>Repeated</b> (Current Finding 2)
Finding 4	MCPA and BHA did not ensure that the ASO performed a sufficient number of provider audits, that the audits included financially material and current transactions, and that any overpayments and deficiencies identified were corrected.	<b>Repeated</b> (Current Finding 1)
Finding 5	Redacted cybersecurity-related finding. <sup>3</sup>	Status Redacted <sup>3</sup>
Finding 6	A lack of ASO vendor compliance with a certain contract requirement prevented MCPA from obtaining enhanced federal funding.	Not repeated
Finding 7	MCPA did not timely investigate and resolve claims paid by the ASO for which federal reimbursement was denied or approved for a different amount than the amount paid.	<b>Repeated</b> (Current Finding 3)
Finding 8	MDH had not developed a formal policy on the assessing of liquidated damages and did not assess up to \$20.5 million in liquidated damages permitted by the ASO contract despite the vendor's ongoing failure to provide an operational system or comply with certain requirements.	Not Repeated
Finding 9	MDH circumvented State procurement regulations to obtain information technology (IT) consulting services totaling approximately \$19.8 million from one vendor.	<b>Repeated</b> (Current Finding 4)

<sup>3</sup> The finding description as well as the implementation status of this cybersecurity-related finding have been redacted from the publicly available report in accordance with State Government Article, Section 2-1224(i) of the Annotated Code of Maryland.

## Findings and Recommendations

### Administrative Service Organization (ASO)

According to Maryland Department of Health (MDH) records, the ASO processed 9.1 million claims totaling \$2.9 billion during fiscal year 2024. The ASO contract required the vendor to conduct provider audits to ensure that claims paid were proper and supported and to report the results to MDH. Based on the number of issues identified by the audits, the provider is required to prepare a performance improvement plan (PIP) detailing the corrective actions to be taken. MDH's Medical Care Programs Administration (MCPA) is responsible for directing the ASO to retract payments from providers and the Behavioral Health Administration (BHA) is responsible for monitoring the implementation of the PIP.

As noted in our prior audit, there were significant operational deficiencies with the ASO's system which resulted in MDH assessing liquidated damages and penalties totaling \$14.6 million between January 2020 and December 2024. MDH also opted not to exercise the options to extend the contract and initiated a competitive solicitation for a new ASO in January 2023. In February 2024, MDH entered into a \$339.6 million contract with a new ASO covering the period from March 1, 2024 to December 31, 2031 (including one two-year option) to design and develop a new claims processing system and to provide ASO services. The new ASO system went live on January 1, 2025.

Since these functions were performed by the prior ASO during our audit period, our audit focused primarily on the activities of the prior ASO. Our audit also included a review of the procurement of the new ASO system.

#### **Finding 1**

**MDH did not ensure that claims paid by the ASO were proper and supported, that overpayments identified were recovered, and that necessary corrective or disciplinary actions were taken.**

#### **Analysis**

MDH (including BHA and/or MCPA as applicable) did not ensure that claims paid by the ASO were proper and supported, that overpayments identified were recovered, and that necessary corrective or disciplinary actions were taken.

- MDH did not establish a process to ensure that provider claims were proper and supported. The ASO is contractually required to perform 370 provider audits annually. MDH historically relied on these audits to ensure the

propriety of the claims. However, the ASO consistently did not perform the required number of audits over the course of the contract, including 95 of the 134 highest paid providers<sup>4</sup> in fiscal year 2024. According to MCPA records, these 95 providers were paid approximately \$452.1 million in fiscal year 2024. Although MDH assessed liquidated damages on the ASO, they did not take any steps to ensure the provider claims were proper, such as by independently testing provider claims for propriety.

- MDH did not recover outstanding overpayments identified during provider audits prior to June 2024. Based on MCPA records, as of November 2024 outstanding overpayments identified during provider audits totaled approximately \$6.7 million, including \$4.9 million that had been outstanding for at least one year. MDH management advised that it was not pursuing any overpayments until it resolved the outstanding balances for estimated payments previously described in the background of this report.
- MDH did not ensure that providers submitted the required PIPs and implemented the related corrective actions to resolve findings noted by the ASO's audits. Our test of 27 provider audits<sup>5</sup> requiring a PIP disclosed that as of May 2025, 6 providers had not submitted the required PIP for between 1.6 to 3.2 years after the date of the audit report. For another 6 providers, MDH could not readily determine whether corrective actions had been implemented for PIPs received between October 2022 and January 2024.
- MDH did not always take disciplinary action against non-compliant providers. MDH's policy provides that disciplinary action may be taken for noncompliance by providers, such as the failure to submit required PIPs, and could result in revocation of the provider's approval to operate. Our review disclosed that as of May 2025, MDH had not taken disciplinary action against any of the 6 aforementioned providers that had not submitted a PIP. MDH management advised disciplinary actions had not been taken due to competing priorities.

A similar condition regarding MCPA and BHA not ensuring provider claims were proper was commented upon in our preceding audit report, the failure to ensure provider overpayments were recovered was commented upon in our two

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<sup>4</sup> We analyzed the top 200 highest paid providers by licensed location. Of the 200 providers, we excluded 49 hospitals, laboratories, residential treatment centers, and federally qualified health centers that are not subject to audit by the ASO. We also excluded 17 providers that were not an active Medicaid provider prior to January 2021, since these providers may not have been subject to audit.

<sup>5</sup> Test items were selected from audits completed based on the time elapsed. Specifically, we selected audits that had been completed for at least a year.

preceding reports, and the failure to ensure that corrective actions were taken were noted in our three preceding reports dating back to August 2017.<sup>6</sup> MDH's response to our prior report on behalf of BHA and MCPA indicated that it would take corrective actions for all of these issues by December 2023. However, as noted above, these deficiencies had not been corrected at the time of our review.

### **Recommendation 1**

#### **We recommend that MDH**

- a. in conjunction with the ASO, ensure that provider audit requirements are completed annually (repeat) or that an alternative plan is implemented;**
- b. consider high risk providers and materiality of payments in provider selection for audit (repeat);**
- c. timely recover overpayments identified during audits (repeat); and**
- d. ensure that provider PIPs are received timely, that corrective actions are implemented (repeat), and that disciplinary action is taken, if necessary.**

### **Finding 2**

**BHA did not conduct required audits to ensure that the ASO properly authorized behavioral health services.**

### **Analysis**

BHA did not conduct required audits to ensure that the ASO properly authorized behavioral health services. MDH written procedures provide that BHA personnel are to conduct annual audits of the ASO to verify the propriety of ASO behavioral health services authorizations. According to the ASO's records, it authorized 8.5 million behavioral health services<sup>7</sup> in fiscal year 2024, resulting in claim payments totaling \$2 billion.

Our review disclosed that, as of September 2025, BHA had not conducted audits of calendar year 2023 and 2024 authorizations. BHA management advised that the calendar year 2023 audit was not conducted due to employee turnover and that it did not plan to audit calendar year 2024 authorizations because MDH transitioned to the new ASO in January 2025. The lack of audits is significant because these audits, when conducted, have historically found instances in which

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<sup>6</sup> Prior to our *Behavioral Health Administration and Medical Care Programs Administration Administrative Service Organization for Behavioral Health Services* audit report dated October 25, 2022, the Behavioral Health Administration and Medical Care Programs Administration Administrative Service Organization were audited separately.

<sup>7</sup> During this period the ASO also denied approximately 25,000 authorization requests.

the medical necessity of services and the clients' diagnoses were not documented which could ultimately result in improper payments to providers.

Similar conditions were commented upon in our two preceding audit reports dating back to January 2020. In its response to the preceding report, MDH on behalf of BHA and MCPA indicated that annual audits of the prior year's authorizations would be performed starting in calendar year 2023. As noted above, these audits still had not been conducted.

## **Recommendation 2**

**We recommend that MDH ensure that the ASO properly authorized behavioral health services and that the bases for the authorizations were adequately documented. Specifically, we recommend that MDH ensure that BHA personnel conduct audits of the ASO at least annually (repeat).**

## **Finding 3**

**MCPA did not timely investigate and resolve claims paid by the ASO that were denied for federal reimbursement or approved for an amount that was different than the amount paid.**

## **Analysis**

MCPA did not timely investigate and resolve all claims paid by the ASO that were denied or approved for a different amount (discrepant) by the federally certified Medicaid Management Information System (MMIS II).<sup>8</sup> The ASO is responsible for initially receiving and processing provider claims through its claim processing system. Once a claim has been processed and paid by the ASO, it is submitted to MMIS II and subject to the claim processing edits that are intended to ensure only eligible claims are submitted for federal reimbursement.

Our review of MCPA records as of December 6, 2024 disclosed there were still approximately 19,700 unresolved denied claims totaling \$5.8 million, certain of which dated back to October 2017. These claims consisted of \$1.4 million that had not been investigated by the ASO and \$4.4 million that had been investigated by the ASO but remained unresolved by MCPA. In addition, approximately 33,600 discrepant claims totaling \$3.2 million had not been resolved for the same period, consisting of claims totaling \$1.5 million that exceeded the Medicaid rate and claims totaling \$1.7 million where the amount was lower than the Medicaid rate.

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<sup>8</sup> MDH uses MMIS II to process paid claims for federal reimbursement. In addition, although provider payments for behavioral health services are issued by the ASO, MMIS II is used to pay providers for other Medicaid programs that operate on a fee-for-service basis.

Since federal regulations only provide two years from the calendar quarter a claim was paid by the State to request reimbursement, the federal portion (generally 50 percent) of certain of these claims may no longer be recoverable. In this regard, \$4 million of the unresolved denied claims and \$2.2 million of the discrepant claims (\$1.2 million exceeding the Medicaid rate and \$1 million that were below the Medicaid rate) discussed above related to claims paid by the ASO at least two years prior to December 6, 2024. MDH management advised us that it had not determined the appropriate action to take for these claims. MDH advised it believes federal reimbursement could still be obtained due to the unprecedented system deficiencies under the prior ASO.

Similar conditions regarding claims that were denied federal reimbursement or approved for a different amount were commented upon in our preceding audit report. In response to our prior report, MDH on behalf of BHA and MCPA agreed to timely investigate and recover federal reimbursement for these claims, with the goal of having a fully reconciled system by December 2024. Although MCPA implemented a process in July 2023 to investigate denied claims which resulted in a substantial reduction<sup>9</sup> in the number of unresolved denied claims compared to the prior audit, as noted above, a significant number of claims were still unresolved at the time of our review.

### **Recommendation 3**

**We recommend that MDH continue to ensure denied and discrepant claims are timely investigated, resolved, and federal reimbursement recovered (repeat).**

## **Contracts**

### **Finding 4**

**MDH circumvented State procurement regulations to obtain information technology (IT) consulting services from a vendor totaling \$18 million and could not support that the costs were reasonable.**

MDH circumvented State procurement regulations to obtain IT consulting services for the ASO system and could not support that the costs were reasonable. Specifically, during the period from August 2021 through January 2025, MDH directed a vendor under a statewide contract to pay a subcontractor for work

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<sup>9</sup> Specifically, our preceding audit report noted that, as of September 2021, there were approximately 292,000 unresolved denied claims requiring investigation totaling approximately \$106.7 million. In addition, there were 388,000 discrepant claims, including claims totaling \$13.8 million that exceeded the Medicaid rate.

performed for MCPA related to the ASO. MDH controlled the selection, work duties, and oversight of the vendor which raises questions as to the propriety of its use of the statewide contract rather than competitively procuring the services as required by State procurement regulations.

Furthermore, MDH could not support that the \$18 million paid to the vendor as of July 2025 was reasonable. The contract provided that the statewide contractor would be paid a fixed fee for these services but MDH could not document how the fee was determined to support that it was reasonable for the services being provided. For example, we noted that the fixed fee included up to 18 percent in administrative fees, for which actual payments as of July 2025 totaled \$3.2 million. MDH could not document any specific work performed by the statewide contractor to support the administrative fee, other than to pay the vendor and bill MCPA.

A similar condition was commented upon in our preceding audit report in which we noted that MDH used a combination of procurement methods to obtain services from this vendor dating back to July 2017 including directing the aforementioned statewide contract vendor to pay the aforementioned vendor. In response to our prior report, MDH on behalf of BHA and MCPA indicated it would reassess its procurement practices. However, as noted above MDH continues to use the same vendor without a competitive procurement process.

#### **Recommendation 4**

##### **We recommend that MDH**

- a. comply with State procurement regulations and competitively procure services or, if the services of a particular vendor are required, adequately document the justification for the sole source procurement (repeat); and**
- b. ensure amounts paid for services, including any administrative fees, are supported and reasonable.**



## **Audit Scope, Objectives, and Methodology**

We have conducted a fiscal compliance audit of the following units of the Maryland Department of Health (MDH) for the periods beginning July 1, 2021 and ending October 31, 2024.

- Behavioral Health Administration (BHA)
- Medical Care Program Administration (MCPA) Administrative Service Organization (ASO) for Behavioral Health Services

The audit was conducted 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the respective MDH units' financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included procurement, the monitoring of ASO contract deliverables, claims processing (including denied claims), provider audits, and monitoring of grant and contract provisions. We also determined the status of the nine findings included in our preceding audit report.

Our audit did not include certain support services provided by MDH's Office of the Secretary. These support services (such as payroll, purchasing, maintenance of accounting records, and related fiscal functions) are included within the scope of our audit of the MDH – Office of the Secretary and Other Units. In addition, a separate audit of the State's behavioral health hospital centers is performed by our office. Therefore, the activities of these hospitals were not included in the scope of our audit.

Our audit also did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance programs and an assessment of compliance with those laws and regulations by MDH and its units because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including MDH.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of July 1, 2021 to October 31, 2024, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel (including certain ASO employees, inspection of documents and records, tests of transactions, and to the extent practicable, observations of BHA and MCPA operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected.

We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from this source were sufficiently reliable for the purposes the data were used during the audit.

We also extracted data from MDH's ASO system for the purpose of testing compliance with the ASO contract provisions. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MDH's management at the respective units is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records; effectiveness and efficiency of operations, including safeguarding of assets; and compliance with applicable laws, rules, and regulations are achieved. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the

five components, when significant to the audit objectives, and as applicable to the respective MDH units, were considered by us during the course of this audit.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect the respective MDH unit's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to the respective MDH units that did not warrant inclusion in this report.

State Government Article Section 2-1224(i) requires that we redact in a manner consistent with auditing best practices any cybersecurity information before a report is made available to the public. This results in the issuance of two different versions of an audit report that contains cybersecurity information – a redacted version for the public and an unredacted version for government officials responsible for acting on our audit recommendations.

The State Finance and Procurement Article, Section 3.5-301(b), states that cybersecurity is defined as “processes or capabilities wherein systems, communications, and information are protected and defended against damage, unauthorized use or modification, and exploitation.” Based on that definition, and in our professional judgment, we concluded that certain information in this report falls under that definition. Consequently, for the publicly available audit report all specifics as to the nature of this cybersecurity information has been redacted. We have determined that such aforementioned practices, and government auditing standards, support the redaction of this information from the public audit report. The specifics of the cybersecurity information has been communicated to MDH and those parties responsible for acting on our recommendations in an unredacted audit report.

The response from MDH, on behalf of BHA and MCPA, to our findings and recommendations, is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDH regarding our review of its response.

**Exhibit 1**  
**Listing of Most Recent Office of Legislative Audits**  
**Fiscal Compliance Audits of Maryland Department of Health Units**  
**As of September 2025 (Page 1 of 2)**

Name of Audit		Areas Covered	Most Recent Report Date
1	Regional Institute for Children and Adolescents	<ul style="list-style-type: none"> <li>John L. Gildner Regional Institute for Children and Adolescents</li> <li>Regional Institute for Children and Adolescents – Baltimore</li> </ul>	08/25/25
2	Developmental Disabilities Administration	Developmental Disabilities Administration	06/18/25
3	Regulatory Services	<ul style="list-style-type: none"> <li>22 Health Professional Boards and Commissions</li> <li>The Office of Health Care Quality</li> </ul>	04/09/25
4	Vital Statistics Administration	<ul style="list-style-type: none"> <li>Vital Statistics Administration</li> </ul>	03/19/25
5	Prevention and Health Promotion Administration - Office of Population Health Improvement - Office of Preparedness and Response - Office of Provider Engagement and Regulation	<ul style="list-style-type: none"> <li>Prevention and Health Promotion Administration</li> <li>Office of Population Health Improvement</li> <li>Office of Preparedness and Response</li> <li>Office of Provider Engagement and Regulation – Office of Controlled Substances Administration</li> <li>Office of Provider Engagement and Regulation – Prescription Drug Monitoring Program</li> </ul>	08/09/24
6	Pharmacy Services	Pharmacy Services	08/09/24
7	Laboratories Administration	Laboratories Administration	06/05/24
8	State Psychiatric Hospital Centers	<ul style="list-style-type: none"> <li>Clifton T. Perkins Hospital Center</li> <li>Eastern Shore Hospital Center</li> <li>Spring Grove Hospital Center</li> <li>Springfield Hospital Center</li> <li>Thomas B. Finan Hospital Center</li> </ul>	05/29/24

**Exhibit 1**  
**Listing of Most Recent Office of Legislative Audits**  
**Fiscal Compliance Audits of Maryland Department of Health Units**  
**As of September 2025 (Page 2 of 2)**

Name of Audit		Areas Covered	Most Recent Report Date
9	Health Regulatory Commission	<ul style="list-style-type: none"> <li>• Maryland Health Care Commission</li> <li>• Health Services Cost Review Commission</li> <li>• Maryland Community Health Resources Commission</li> </ul>	01/25/24
10	Medical Care Programs Administration – Managed Care Program	Managed Care Program, known as HealthChoice including oversight of the nine private Managed Care Organizations	12/14/23
11	Medical Care Programs Administration	Medical Care Programs Administration	11/02/23
12	Office of the Secretary and Other Units	<ul style="list-style-type: none"> <li>• Office of the Secretary</li> <li>• Deputy Secretary and Executive Director for Behavioral Health</li> <li>• Deputy Secretary for Developmental Disabilities</li> <li>• Deputy Secretary for Public Health</li> <li>• Deputy Secretary for Health Care Financing and Chief Operating Officer</li> <li>• Deputy Secretary for Operations</li> </ul>	10/19/23
13	Chronic Care Hospital Centers	<ul style="list-style-type: none"> <li>• Deer’s Head Center</li> <li>• Western Maryland Hospital Center</li> </ul>	05/10/23
14	Intellectual Disabilities Residential Centers	<ul style="list-style-type: none"> <li>• Holly Center</li> <li>• Potomac Center</li> <li>• Secure Evaluation and Therapeutic Treatment</li> </ul>	10/24/22
15	Office of the Chief Medical Examiner	Office of the Chief Medical Examiner	05/12/22

## APPENDIX



*Wes Moore, Governor · Aruna Miller, Lt. Governor · Ryan Moran, DrPH, MHSA, Acting Secretary*

October 3, 2025

Mr. Brian S. Tanen, CPA, CFE  
Legislative Auditor  
Office of Legislative Audits  
The Warehouse at Camden Yards  
351 West Camden Street, Suite 400  
Baltimore, MD 21201

Dear Mr. Tanen:

Enclosed, please find the responses to the draft audit report on the Maryland Department of Health – Behavioral Health Administration and Medical Care Programs Administration – Administrative Service Organization for Behavioral Health Services for the period beginning July 1, 2021 and ending October 31, 2024.

If you have any questions, please contact Frederick D. Doggett at 410-767-0885 or email at [frederick.doggett@maryland.gov](mailto:frederick.doggett@maryland.gov).

Sincerely,



Meena Seshamani, M.D., Ph.D.  
Secretary

### Enclosures

cc: Kate Wolff, MPA, Chief of Staff, MDH  
Emily Berg, Deputy Chief of Staff, MDH  
Alyssa S. Lord, Deputy Secretary, BHA-MDH  
Alexandra Baldi, Chief of Staff, BHA-MDH  
Perrie T. Briskin, Deputy Secretary, Health Care Financing and Medicaid, MDH  
Liz Schuelke, Chief of Staff, MDH  
Clint Hackett, Deputy Secretary for Operations, MDH  
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Information Security, MDH  
Deneen Toney, Deputy Director, Audit & Compliance, Internal Controls, Audit Compliance & Information Security, MDH  
Carlean Rhames-Jowers, Chief Auditor, Internal Controls, Audit Compliance & Information Security, MDH

**Maryland Department of Health**  
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**Administrative Service Organization (ASO)**

**Finding 1**

**MDH did not ensure that claims paid by the ASO were proper and supported, that overpayments identified were recovered, and that necessary corrective or disciplinary actions were taken.**

**We recommend that MDH**

- a. in conjunction with the ASO, ensure that provider audit requirements are completed annually (repeat) or that an alternative plan is implemented;**
- b. consider high risk providers and materiality of payments in provider selection for audit (repeat);**
- c. timely recover overpayments identified during audits (repeat); and**
- d. ensure that provider PIPs are received timely, that corrective actions are implemented (repeat), and that disciplinary action is taken, if necessary.**

<b>Agency Response</b>			
<b>Analysis</b>	<b>Factually Accurate</b>		
<b>Please provide additional comments as deemed necessary.</b>			
<b>Recommendation 1a</b>	<b>Agree</b>	<b>Estimated Completion Date:</b>	<b>10/31/2026</b>
<b>Please provide details of corrective action or explain disagreement.</b>	<p>Due to the unsuccessful launch of the ASO in 2020, there was a delay in implementing provider audits. Additionally, the vendor and the Department were focused on operational concerns which meant that there was an inability to rely on data and reporting coming from the ASO. While efforts were made to catch up on the required number of audits, the vendor was unsuccessful in completing the required targets.</p> <p>With the launch of the current ASO on January 1, 2025, BHA and MCPA are requiring the new ASO to conduct 212 audits for both the first and final years of the contract and 425 annually for Years 2-4. In addition,</p>		



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	<p>BHA/MCPA are establishing milestones for the following:</p> <ol style="list-style-type: none"> <li>1. ASO to develop data mining criteria.</li> <li>2. BHA/MCPA to review and approve audit tools and associated provider training.</li> <li>3. BHA/MCPA to review the number and quality of audits completed annually.</li> <li>4. BHA/MCPA to require updated audit plans for any lapses including a corrective action plan to complete the full number of required audits by the conclusion of the current BHASO vendor's contract period.</li> </ol> <p>Once these milestones are established, the MDH Office of Internal Controls, Audit Compliance and Information Security (IAC/S) will periodically review and report on BHA/MCPA progress against the milestones. MDH expects the first round of milestone reviews to be completed by 10/31/2026.</p>		
<b>Recommendation 1b</b>	Agree	<b>Estimated Completion Date:</b>	1/1/2026
<b>Please provide details of corrective action or explain disagreement.</b>	<p>BHA has directed the new ASO to prioritize auditing the following provider types: Outpatient Mental Health Center (OMHC); Psychiatric Rehabilitation Program- Adults (PRP-A)- including associated Health Home when applicable; Psychiatric Rehabilitation Program- Minors (PRP-M); Level 1 Outpatient Program (OP); Level 2.1 Intensive Outpatient Program (IOP); Level 2.5 Partial Hospitalization Program (PHP); and Opioid Treatment Program (OTP). Please note that the prioritization of these provider types does not limit the ASO from auditing all other provider types. The prioritization of these providers was based on an analysis of claims which found that out of \$1.1M in claims, more than \$600K in claims was retractable. Based upon prior audits, we have found these three provider types have yielded higher rates of Fraud Waste and Abuse (FWA). This has led the Department to request to CMS (with subsequent approval) a pause on new provider enrollment into Medicaid for PRP, PHP and IOP.</p>		

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	<p>Providers may be audited both at random in addition to identified outlier billing practices, upon selection by the Department, and through reports from participants, providers, or stakeholders.</p> <p>On or about 1/1/2026, IAC/S will begin a review of the ASO's first-year audits to determine whether the BHA priorities were followed. IAC/S will report on the status of its review by 3/31/2026.</p>		
<b>Recommendation 1c</b>	Agree	<b>Estimated Completion Date:</b>	2/28/2026
<b>Please provide details of corrective action or explain disagreement.</b>	<p>BHA and MCPA, through the efforts of the current ASO, will be promptly recouping overpayments. This activity has already been initiated with the current ASO currently collecting overpayment from prior audit findings that were not previously recovered.</p> <p>On or about 1/1/2026, IAC/S will begin a review of the ASO's first-year audits to determine whether MDH is promptly recovering overpayments identified during the audits. IAC/S will report on the status of its review by 3/31/2026.</p>		
<b>Recommendation 1d</b>	Agree	<b>Estimated Completion Date:</b>	1/1/2026
<b>Please provide details of corrective action or explain disagreement.</b>	<p>BHA and MCPA agree that PIPs must be received in accordance with the required timeframes and will take corrective action for providers who do not submit a PIP as required, which may include more frequent audits and retractions for undocumented services.</p> <p>On or about 1/1/2026, IAC/S will begin a review of the ASO's first-year audits to determine whether provider PIPs, if any, have been timely provided to BHA; that BHA has documented the implementation of any required corrective actions; and that BHA has identified and documented any associated disciplinary actions. IAC/S will report on the status of its review by 3/31/2026.</p>		

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**Finding 2**

**BHA did not conduct required audits to ensure that the ASO properly authorized behavioral health services.**

**We recommend that MDH ensure that the ASO properly authorized behavioral health services and that the bases for the authorizations were adequately documented. Specifically, we recommend that MDH ensure that BHA personnel conduct audits of the ASO at least annually (repeat).**

Agency Response			
<b>Analysis</b>	<b>Factually Accurate</b>		
Please provide additional comments as deemed necessary.			
<b>Recommendation 2</b>	Agree	<b>Estimated Completion Date:</b>	4/1/2026
Please provide details of corrective action or explain disagreement	<p>MDH is committed to resuming timely completion of annual Medical Necessity Criteria (MNC) audits to ensure that the ASO properly authorizes behavioral health services and that the basis of authorizations is adequately documented. MDH has initiated planning for the annual MNC audit of calendar year 2025 authorizations to begin in early 2026.</p> <p>On or about 4/1/2026, IAC/S will begin a review to determine whether BHA conducted the annual MNC audit as planned. IAC/S will report on the status of its review by 6/30/2026.</p>		

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**Finding 3**

**MCPA did not timely investigate and resolve claims paid by the ASO that were denied for federal reimbursement or approved for an amount that was different than the amount paid.**

**We recommend that MDH continue to ensure denied and discrepant claims are timely investigated, resolved, and federal reimbursement recovered (repeat).**

Agency Response			
<b>Analysis</b>	<b>Factually Accurate</b>		
Please provide additional comments as deemed necessary.			
<b>Recommendation 3</b>	Agree	<b>Estimated Completion Date:</b>	1/1/2026
Please provide details of corrective action or explain disagreement.	<p>Recoverable outstanding Federal Financial Participation (FFP) were transferred to the current ASO and are undergoing rigorous review to capture any past and present outstanding FFP. Certain services that have a dependency on eligibility spans which are no longer available are not included in this review but may be included under other contractual considerations MDH may pursue. All claims paid by the current ASO are now and will continue to be continuously monitored for all available federal participation matches. MCPA has resumed productive “FFP” management meetings to monitor the current ASO’s and Medicaid system alignments progress.</p> <p>On or about 1/1/2026, IAC/S will begin a review of BHA documentation regarding the investigation, resolution, and recovery of federal reimbursement associated with denied and discrepant claims. IAC/S will report on the status of its review by 3/31/2026.</p>		

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**Contracts**

**Finding 4**

**MDH circumvented State procurement regulations to obtain information technology (IT) consulting services from a vendor totaling \$18 million and could not support that the costs were reasonable.**

**We recommend that MDH**

- a. comply with State procurement regulations and competitively procure services or, if the services of a particular vendor are required, adequately document the justification for the sole source procurement (repeat); and**
- b. ensure amounts paid for services, including any administrative fees, are supported and reasonable.**

Agency Response			
<b>Analysis</b>	<b>Factually Accurate</b>		
Please provide additional comments as deemed necessary.			
<b>Recommendation 4a</b>	Agree	<b>Estimated Completion Date:</b>	3/1/2027
Please provide details of corrective action or explain disagreement.	<p>The RFP for a competitive bid process has been completed and submitted for review under the Office of Contracts Management and Procurement (OCMP) as of August 2025. This could not be completed sooner due to the complexities of the phasing out of the prior vendor and the transition of the new vendor with all the associated operational and configuration efforts that needed to be completed. MDH estimates that the solicitation should be made in CY 2026 with a selection by 3/1/2027.</p> <p><b>**The State is exploring all available procurement options in order to not have a gap for this critical resource.</b></p> <p>We appreciate OLA's consideration as the timing of the competitive bid did not align with the unexpected discontinuation of the current contract vehicle.</p>		

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<b>Recommendation 4b</b>	Agree	<b>Estimated Completion Date:</b>	3/1/2027
<b>Please provide details of corrective action or explain disagreement.</b>	<p>BHA and MCPA have experienced the value of this resource with a high performing ASO and a poor performing ASO. Throughout this process, extensive documentation of deliverables and setting expectations has been continuously adopted into the pending competitive solicitation. MDH will ensure that the final contract will be supported by deliverables and are reasonable based on the needs for overseeing a (approx.) \$45 million a year, highly complex, ASO contract.</p> <p>On or about 3/1/2027, IAC/S will review MDH documentation that it has competitively bid the scope of work associated with this contract. IAC/S will also review MDH documentation to determine whether BHA evaluated amounts paid to the incumbent for support and reasonableness.</p>		

AUDIT TEAM

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