Audit Report

Maryland Department of Health
Medical Care Programs Administration
Managed Care Program

January 2026

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

January 14, 2026

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) – Medical Care Programs Administration's (MCPA) fiscal activities with respect to the Managed Care Program (known as HealthChoice) for the period beginning April 1, 2022 to May 15, 2025. Under HealthChoice, MCPA makes monthly capitation payments to private Managed Care Organizations (MCOs) to cover the cost of services provided to Medicaid recipients. During calendar year 2024, MCPA paid providers approximately $7.59 billion for HealthChoice services, which was financed by State and federal funds.

Our audit disclosed that MCPA did not have comprehensive procedures to ensure that ineligible payments reported by the MCOs, such as denied claims, were excluded from the capitation rate calculation. The inclusion of such payments in the expenditure data used to calculate the MCO capitation rates could result in the rates being set too high. For example, MCPA did not ensure that 124,500 duplicate claims totaling $287 million were excluded from the capitation rate calculation. Similar conditions were noted in our prior audit report and in our June 23, 2020 performance audit report of *MDH's Efforts to Identify and Analyze Improper Medicaid Payments* but were not sufficiently corrected.

Our audit also disclosed that MCPA did not have an effective process to identify and prevent capitation payments to MCOs for incarcerated individuals, whose healthcare costs are generally covered by the Department of Public Safety and Correctional Services (DPSCS) instead of MCPA. Our match of DPSCS incarceration records for the period between July 2017 and March 2025 to MCO

HealthChoice enrollees identified 2,452 individuals who were enrolled in HealthChoice while incarcerated, resulting in $7.8 million in improper capitation payments. Similar conditions were commented upon in our preceding audit report and aforementioned performance audit report but not sufficiently corrected.

Our audit further disclosed that MCPA did not investigate or recover potentially improper supplemental payments to MCOs for newborn deliveries. Specifically, as of September 2025, MCPA had not investigated 768 potentially unsupported supplemental newborn delivery payments made during calendar years 2022 and 2023 totaling $13.8 million to determine if the payments were legitimate or should be recovered from the MCOs. In response to our request, MCPA investigated 20 of these claims totaling $352,000 and determined that 5 claims totaling $88,900 were improperly paid. This condition was commented upon in our preceding audit report but not corrected.

Finally, our audit disclosed that MCPA did not ensure that payments made to a State university were adequately supported, were reasonable in relation to the tasks performed, and in accordance with the terms of the agreement.

MDH's response to this audit, on behalf of 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 MCPA 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 MCPA.

Respectfully submitted,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
Legislative Auditor

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* **Denotes item repeated in full or part from preceding audit report**

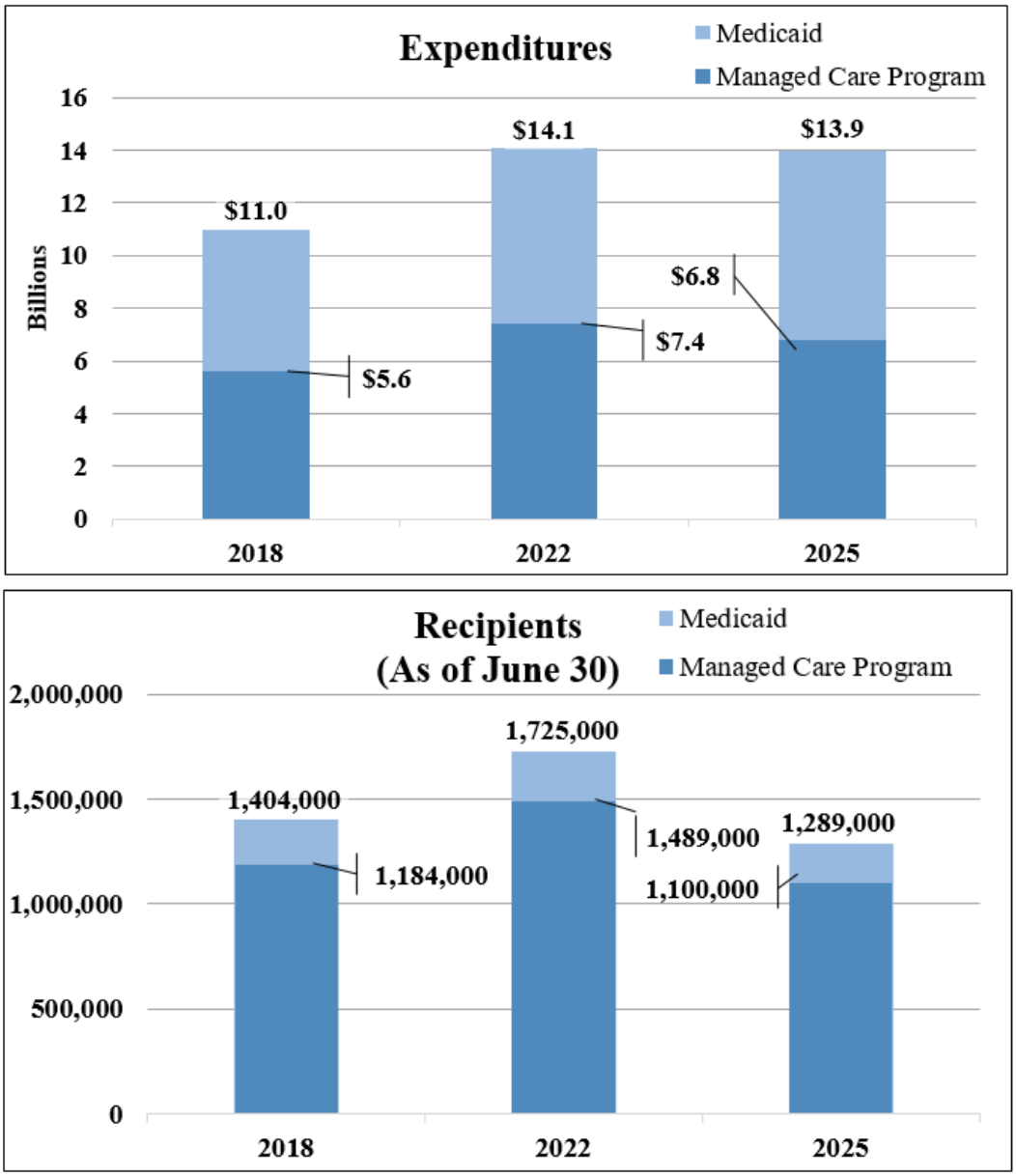
Background Information

Agency Responsibilities and Audit Scope

The Maryland Department of Health (MDH) Medical Care Programs Administration (MCPA) administers Medicaid, a joint federal and state entitlement program for low-income individuals. MCPA's Managed Care Program, known as HealthChoice uses nine private Managed Care Organizations (MCOs) to provide medical services to Maryland Medicaid recipients. In general, MCOs contract with and pay health care professionals and other entities (such as hospitals) to provide these services.

According to MCPA records for fiscal year 2025, approximately $6.8 billion of the $13.9 billion in State Medicaid expenditures related to MCOs that provided services to 1.1 million of the 1.3 million Maryland Medicaid recipients as of June 30, 2025 (see Figure 1). During the audit period there was a decrease in Medicaid recipients due primarily to the end of the COVID-era continuous enrollment policy and resumption of normal eligibility reviews, which resulted in many recipients being disenrolled because they no longer met eligibility requirements. MCPA makes a monthly capitation payment for each Medicaid recipient enrolled in the MCO. The capitation rates vary by recipient based on several factors, including the recipient's demographics and medical history. MCPA also reimburses the MCOs for certain high-cost activities (such as newborn deliveries).

Figure 1
MCPA Medicaid Expenditures and Recipients
(Fiscal Years 2018 to 2025)



Source: State accounting records, MCPA records

The scope of this audit included MCPA's monitoring of enrollment and disenrollment of recipients in MCOs, calculations of the MCO capitation rates, and MCO oversight and processing of the related payments. Separate audits are conducted of MCPA's primary functions (such as recipient eligibility, long-term care, and hospital services), of MCPA's monitoring of the Behavioral Health

Administration's Administrative Service Organization, of MCPA's Pharmacy Services, and the recovery of the federal share of Medicaid program costs, which is included in our audit of MDH Office of the Secretary and Other Units (see Exhibit 1 on page 18).

Status of Findings from Preceding Audit Report

Our audit included a review to determine the status of the four findings contained in our preceding audit report dated December 14, 2023. See Figure 2 for the results of our review.

Figure 2
Status of Preceding Findings

Preceding Finding	Finding Description	Implementation Status
Finding 1	MCPA procedures were not sufficiently comprehensive to ensure the validity of MCO reported expenditure data used in the capitation rate setting calculation.	Not Repeated
Finding 2	MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation.	**Repeated** (Current Finding 1)
Finding 3	MCPA did not have an effective process to identify capitation payments to MCOs for incarcerated individuals, resulting in approximately $14 million in improper payments during fiscal years 2019 to 2022.	**Repeated** (Current Finding 2)
Finding 4	MCPA did not investigate and recover potentially improper supplemental payments to MCOs for newborn deliveries totaling $10.4 million.	**Repeated** (Current Finding 3)

Findings and Recommendations

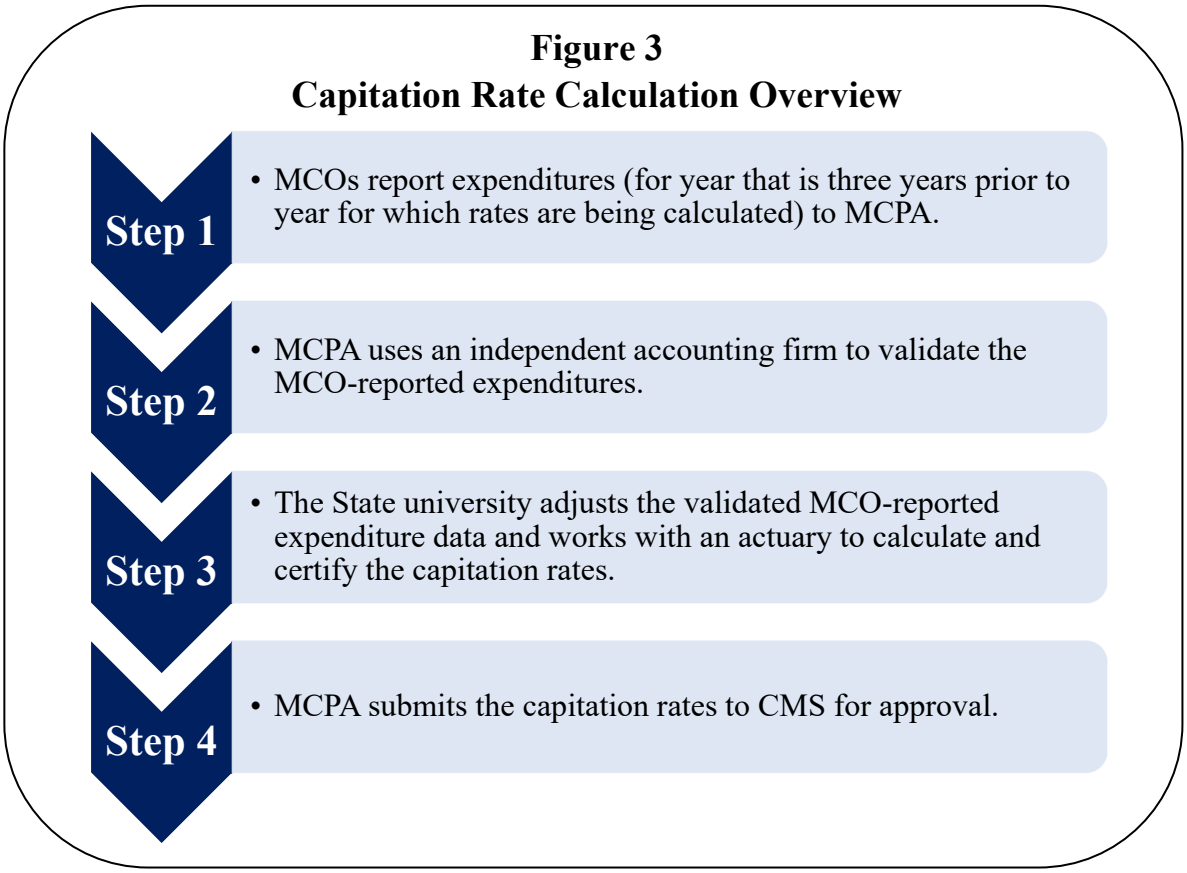
Capitation Rates

Background

According to Medicaid Management Information System (MMIS II) records, the Medical Care Programs Administration (MCPA) made payments to the Managed Care Organizations (MCOs) totaling approximately $7.59 billion during calendar year 2024, which were financed by State and federal funds. Capitation payments accounted for $7 billion (92 percent) of this amount, and the remaining $589.4 million was for supplemental payments made to MCOs for certain high cost services (such as newborn deliveries).

The capitation rates are calculated on a calendar year basis, using the MCOs' reported expenditures for the year that is three years prior to the year for which rates are being calculated, and vary by recipient depending on the assigned capitation rate category. Our review focused primarily on MCPA's calculation of the calendar year 2024 capitation rates, which was performed using MCO expenditures during calendar year 2021. MCPA contracts with an independent accounting firm to verify the MCO-reported expenditures and has an interagency agreement with a State university to assist with the rate-setting calculation (see Figure 3). These calculations are certified by an actuary and then submitted to the federal Centers for Medicare and Medicaid Services (CMS) for approval.

Figure 3
Capitation Rate Calculation Overview



Each recipient is placed in one of 67 capitation categories based on factors such as age, demographics, and historical medical services provided. For example, for calendar year 2024, the monthly capitation rates paid for adults without children in Baltimore City ranged from $259 to $2,775 per recipient.

Finding 1
MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation.

Analysis
MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation. Claims which should be excluded from the capitation rate calculation include denied claims and claims which were not the responsibility of the MCO, such as, claims for carved out services.[1] The inclusion of such payments in the expenditure data

[1] MCPA, rather than the MCO, is responsible for paying claims for carved-out services, such as certain behavioral health services.

used to calculate the capitation rates could result in MCO capitation rates being set too high.

Denied Claims Were Not Investigated

MCPA did not ensure that the MCO-reported expenditure data, used in the rate-setting calculation, excluded claims that were subsequently determined to be improper. The MCOs record expenditure data in MCPA's Medicaid Management Information System (MMIS II), which contains numerous automated edits to identify potential improprieties (such as duplicate claims) for further investigation by MCPA. MCPA did not review these denied claims to verify if they were improper and determine if the related ineligible costs were excluded from the expenditure data submitted by the MCOs for capitation rate-setting purposes. Rather, the denied claims were forwarded by MCPA to the MCOs for further investigation without additional follow up by MCPA to determine the resolution.

Figure 4
Denied MCO Claims in MMIS II by Calendar Year

Calendar Year	Claims Denied by MMIS II	Amount Reported Paid by MCO
2022	4,602	$ 17,088,705
2023	136,395	89,005,336
2024	666,168	324,621,813
Total	**807,165**	**$430,715,854**

Source: MCPA records

Our analysis of MMIS II records disclosed approximately 807,000 claims totaling $430.7 million reported by the MCOs between calendar year 2022 and 2024 that were denied by MMIS II (see Figure 4). A significant portion of these claims appeared questionable based on the stated reason the claim was denied by MMIS II. For example, 124,500 claims totaling $287 million were denied because they were duplicates of previously submitted claims, including $203.8 million in calendar year 2024.[2]

A similar condition was commented upon in our preceding audit report. MDH's response to our prior report, on behalf of MCPA, indicated that MCPA would review denied claims to ensure improper payments are excluded from expenditure data used in the capitation rate calculation by March 2024. However, MCPA had not performed any such reviews as of October 2025.

Improper Payments for Carved Out Services

MCPA did not have procedures to ensure that claims for carved out services were excluded from the capitation rate calculation, resulting in potentially duplicate

[2] MCPA could not readily explain why the number of denied claims significantly varied in these years.

claims totaling $8 million paid between May 2022 and December 2024 going undetected. MCPA's contracts with the nine MCOs exclude carved out services (such as certain behavioral health services), which are covered directly by MCPA as fee-for-service claims.

We matched[3] fee-for-service claims for carved out services paid by MCPA to health care providers to MCO claims data during the aforementioned period. Our match identified 33,115 potential duplicate claims totaling $8 million paid by MCPA and an MCO to a provider for the same service,[4] including 24,074 claims totaling $5.4 million for behavioral health services. At our request, MCPA investigated 22 of these claims totaling $350,600 and determined that all 22 claims were paid by both MCPA and the MCO including 21 claims totaling $346,900 improperly paid by the MCOs. The remaining claim was improperly paid by the Administrative Service Organization for Behavioral Health Services.[5] The claims improperly paid by the MCO would have been included in the capitation calculation.

A similar condition was commented upon in our performance audit report on *MDH's Efforts to Identify and Analyze Improper Medicaid Payments* dated June 23, 2020, and our preceding audit report dated December 14, 2023. MDH's response to our prior report on behalf of MCPA indicated that MCPA would implement a data match to ensure the MCOs were not paying for carved out services by June 2024. In October 2024 a State university began performing a data match to identify payments by MCOs for carved out services. However, as of September 2025, MCPA did not investigate the claims identified by the State university or implement any procedures to ensure that claims improperly paid by the MCO were excluded from the capitation rate calculation.

Recommendation 1
We recommend that MCPA

a. review claims denied by MMIS II and ensure improper payments are excluded from the expenditure data used in the capitation rate calculation (repeat);

b. use available MCO data to ensure duplicate payments are not made for services that are carved out from the MCO contracts (repeat); and

[3] Our match was based on a fee-for-service claim having the same date of service, recipient, diagnosis, provider, and claim charge as the claim data reported by the MCO.

[4] The MCO would have been compensated for the direct provider payment through the capitation payments made by MCPA.

[5] These payments are within the scope of our separate audit of MCPA's Administrative Service Organization for Behavioral Health Services.

c. take corrective action to address carved out service claims that were improperly paid, including the claims mentioned above (repeat).

Improper Medicaid Payments

Finding 2
MCPA did not have an effective process to identify capitation payments to MCOs for incarcerated individuals, resulting in improper payments totaling $7.8 million.

Analysis
MCPA did not have an effective process to identify capitation payments to MCOs for incarcerated individuals, resulting in improper capitation payments totaling $7.8 million. State regulations provide that incarcerated individuals are not eligible for the HealthChoice program since the cost of their healthcare is generally paid by the Department of Public Safety and Correctional Services (DPSCS).[6]

Although MCPA performed a weekly match of MCO enrollment data to incarceration data obtained from DPSCS to identify incarcerated individuals for removal, this match did not identify all incarcerated individuals. Specifically, our Data Analytics Unit independently obtained incarceration records from DPSCS[7] and matched this data to MCO enrollees as of December 2024 which identified 2,452 incarcerated individuals who were enrolled in MCOs, resulting in $7.8 million in improper capitation payments. MCPA could not readily explain why its match did not identify these individuals.

A similar condition was commented upon in our preceding audit report and in our June 23, 2020 performance audit report of *MDH's Efforts to Identify and Analyze Improper Medicaid Payments*. MDH's response to our prior report indicated that MCPA would ensure incarcerated individuals are timely disenrolled from MCOs by March 2024. However, during our current audit MCPA advised that it had not

[6] Under federal and State regulations, incarcerated individuals are allowed to maintain Medicaid eligibility during periods of incarceration but are required to be disenrolled from the Managed Care Program (HealthChoice). Typically, Medicaid only covers certain fee-for-service claims (such as inpatient hospital care) for incarcerated individuals and payments for ineligible services should be prevented.

[7] The data we obtained from DPSCS covered the period between July 2017 and March 2025 and included the periods of incarceration based on dates of inmate intake, transfer, and release. We determined that the incarceration records we received from DPSCS were sufficiently reliable for the purposes of our matches.

made any changes to its match methodology. Consequently, MCPA did not identify and timely disenroll the aforementioned 2,452 individuals, including 508 individuals who were also identified in our preceding audit report.

Recommendation 2
We recommend that MCPA ensure incarcerated individuals are timely disenrolled from MCOs to prevent improper capitation payments (repeat).

MCO Supplemental Payments

Finding 3
MCPA did not investigate and recover $13.8 million in potentially improper supplemental payments to MCOs for newborn deliveries.

Analysis
MCPA did not investigate and recover potentially improper supplemental payments to MCOs for newborn deliveries. MCOs submit supplemental newborn delivery claims directly into MMIS II that are not verified by MCPA prior to payment. According to MCPA records, during calendar years 2022 through 2024, MCOs were paid for approximately 77,800 supplemental claims totaling $1.42 billion, of which $1.31 billion (92 percent) were for newborn delivery claims. During calendar year 2024, supplemental payments for each newborn delivery ranged from $14,727 to $21,008 depending on the geographic location.

MCPA relied on a State university to identify supplemental newborn delivery claims that did not have a corresponding hospital record. As of September 2025, MCPA had not reviewed any of the 768 potentially unsupported claims totaling $13.8 million identified by the State university for calendar years 2022 and 2023 to determine if the payments were legitimate or should be recovered from the MCOs.[8] MCPA management advised that the claims were not investigated due to staffing shortages.

At our request, MCPA investigated 20 claims totaling $352,000 and determined that 5 claims totaling $88,900 were improperly paid. MCPA advised that it plans to recover these funds from the MCOs. For example, for one claim totaling $16,500, the MCO could not document a newborn delivery with a corresponding hospital record.

[8] As of October 2025, MCPA's State university had not reported supplemental newborn delivery claims paid during calendar year 2024.

A similar condition was commented upon in our preceding audit report. MDH's response to that report on behalf of MCPA indicated that MCPA would investigate the propriety of all potentially improper newborn delivery supplemental claims by January 2024 and retract any unsupported payments from the MCOs. As noted above MCPA did not investigate potentially improper claims identified during the audit period and, as of October 2025, MCPA had not investigated 605 of the 625 potentially improper claims identified in our prior audit.

Recommendation 3
We recommend that MCPA

a. investigate the propriety of all potentially improper newborn delivery supplemental claims (repeat); and

b. recover any amounts paid for improper claims, including those noted above (repeat).

Interagency Agreement

Finding 4
MCPA did not ensure that payments made to a State university were adequately supported, were reasonable in relation to the tasks performed, and in accordance with the terms of the agreement.

Analysis
MCPA did not ensure that certain payments made to a State university were adequately supported, were reasonable in relation to the tasks performed, and in accordance with the terms of the agreement. MCPA has a longstanding interagency agreement[9] with a State university to assist with the capitation rate-setting process and to assign each MCO enrollee to a specific capitation category. According to State records, payments under the agreement between July 2023 and May 2025 totaled $18.7 million. The agreement identified the university employees who would perform the work and their salaries (including fringe benefits), and the percentage of each employee's time to be applied to work under the agreement.

MCPA did not obtain sufficient records to verify amounts invoiced. Specifically, our test of 12 invoices paid between July 2022 and April 2025 totaling $8.9 million (including $5.6 million for direct labor charges), disclosed MCPA did not obtain details of the actual time spent by each employee on MCPA projects. In addition, MCPA did not obtain support for charges totaling $1.4 million for

[9] MCPA's most recent interagency agreement covers the period between July 2024 and June 2029 totaling $83 million.

subcontractor charges and other direct costs invoiced by the State university. As a result, MCPA could not verify the propriety of the salary charges and the reasonableness in relation to the tasks performed.

In this regard, our review of the support for these invoices disclosed that MCPA paid $73,000 for 8 individuals who were not included in the agreement. While MCPA management advised us that it received verbal notice from the university of all personnel changes, MCPA could not document that it had approved these individuals and the agreement did not address a process for approving personnel changes or additions.

Recommendation 4

We recommend that MCPA

a. implement a process to ensure the propriety of State university invoices. For example, obtain and review payroll records or restructure the agreement to base payment on specific deliverables to be monitored by MCPA, or a combination thereof; and

b. ensure all staffing changes are documented and approved.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Department of Health (MDH) – Medical Care Programs Administration (MCPA) for the period beginning April 1, 2022 and ending May 15, 2025. The audit scope for this audit included MCPA's fiscal activities with respect to the Managed Care Program (HealthChoice) and excluded the procedures and controls over MCPA's primary functions, the Behavioral Health Administration's Administrative Service Organization, and the Maryland Pharmacy Program, which are reviewed under three separate audits (as further explained in the Background Information section of this report).

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 MCPA's 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 MCPA's monitoring of the services provided by its Managed Care Organizations (MCOs), enrollment and disenrollment of Medicaid recipients in MCOs, payments to MCOs (including MCPA's capitation rate-setting process), and the capitation rate-setting interagency agreement. We also determined the status of the four findings contained in our preceding audit report.

Our audit did not include certain support services provided to MCPA 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, our audit did not include an evaluation of internal controls over compliance with federal laws and regulations for federal financial assistance and programs and an assessment of MCPA's compliance with those laws and regulations because the State of Maryland engages an independent accounting

firm to annually audit such programs administered by State agencies, including MCPA.

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 April 1, 2022 to May 15, 2025, 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, inspections of documents and records, tests of transactions, and to the extent practicable, observations of MCPA's 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 the Medicaid Management Information System (such as MCPA and MCO claim payments) for the purpose of selecting test items and performing data analytics. 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 audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MCPA's management 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 MCPA, 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 MCPA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes a finding regarding a significant instance of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to MCPA that did not warrant inclusion in this report.

The response from MDH, on behalf of MCPA, to our findings and recommendations, is included as an appendix to this report. As prescribed in State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise MDH regarding the results of 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 November 2025 (Page 1 of 2)

	Name of Audit	Areas Covered	Most Recent Report Date
1	Behavioral Health Administration and Medical Care Programs Administration - Administrative Service Organization for Behavioral Health Services	• Behavioral Health Administration • Medical Care Programs Administration Administrative Service Organization for Behavioral Health Services	10/03/25
2	Regional Institute for Children and Adolescents	• John L. Gildner Regional Institute for Children and Adolescents • Regional Institute for Children and Adolescents – Baltimore	08/25/25
3	Developmental Disabilities Administration	Developmental Disabilities Administration	06/18/25
4	Regulatory Services	• 22 Health Professional Boards and Commissions • The Office of Health Care Quality	04/09/25
5	Vital Statistics Administration	Vital Statistics Administration	03/19/25
6	Prevention and Health Promotion Administration - Office of Population Health Improvement - Office of Preparedness and Response - Office of Provider Engagement and Regulation	• Prevention and Health Promotion Administration • Office of Population Health Improvement • Office of Preparedness and Response • Office of Provider Engagement and Regulation – Office of Controlled Substances Administration • Office of Provider Engagement and Regulation – Prescription Drug Monitoring Program	08/09/24
7	Pharmacy Services	Pharmacy Services	08/09/24
8	Laboratories Administration	Laboratories Administration	06/05/24
9	State Psychiatric Hospital Centers	• Clifton T. Perkins Hospital Center • Eastern Shore Hospital Center • Spring Grove Hospital Center • Springfield Hospital Center • Thomas B. Finan Hospital Center	05/29/24

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

Name of Audit		Areas Covered	Most Recent Report Date
10	Health Regulatory Commission	• Maryland Health Care Commission • Health Services Cost Review Commission • Maryland Community Health Resources Commission	01/25/24
11	Medical Care Programs Administration	• Medical Care Programs Administration	11/02/23
12	Office of the Secretary and Other Units	• Office of the Secretary • Deputy Secretary and Executive Director for Behavioral Health • Deputy Secretary for Developmental Disabilities • Deputy Secretary for Public Health • Deputy Secretary for Health Care Financing and Chief Operating Officer • Deputy Secretary for Operations	10/19/23
13	Chronic Care Hospital Centers	• Deer's Head Center • Western Maryland Hospital Center	05/10/23
14	Intellectual Disabilities Residential Centers	• Holly Center • Potomac Center • Secure Evaluation and Therapeutic Treatment	10/24/22
15	Office of the Chief Medical Examiner	Office of the Chief Medical Examiner	05/12/22

APPENDIX

Maryland
DEPARTMENT OF HEALTH

Wes Moore, Governor · Aruna Miller, Lt. Governor · Meena Seshamani, M.D., Ph.D., Secretary

January 14, 2026

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 – Medical Care Programs Administration – Managed Care Program for the period beginning April 1, 2022 and ending May 15, 2025.

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

Sincerely,

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

cc: Kate Wolff, MPA, Chief of Staff, MDH
Emily Berg, JD, MPH, Deputy Chief of Staff
Perrie Briskin, Deputy Secretary for Health Care Finance
Liz Schuelke, Chief of Staff
Rayva Virginkar, Medicaid Deputy Director
Clint Hackett, Deputy Secretary for Operations
Frederick D. Doggett, Director, Internal Controls, Audit Compliance & Information Security, MDH
Deneen Toney, Deputy Director, Internal Controls, Audit Compliance & Information Security, MDH
Carlean Rhames-Jowers, Chief Auditor, Internal Controls, Audit Compliance & Information Security, MDH

Maryland Department of Health
Medical Care Programs Administration
Managed Care Program

Agency Response Form

Capitation Rates

Finding 1
MCPA did not have comprehensive procedures to ensure that ineligible costs reported by the MCOs were excluded from the capitation rate calculation.

We recommend that MCPA

a. **review claims denied by MMIS II and ensure improper payments are excluded from the expenditure data used in the capitation rate calculation (repeat);**
b. **use available MCO data to ensure duplicate payments are not made for services that are carved out from the MCO contracts (repeat); and**
c. **take corrective action to address carved out service claims that were improperly paid, including the claims mentioned above (repeat).**

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 1a	Agree	**Estimated Completion Date:**	6/30/27
Please provide details of corrective action or explain disagreement.	MDH continues to make progress in developing the recommended procedures. For example, one vendor reviews dental encounters and behavior health encounters (carved out services) to ensure excluded in Managed Care Organization (MCO) encounters. Beginning with CY 2023, instructions require the MCOs to remove incarcerated individuals, dental, and behavioral health services from the MCO HealthChoice Financial Monitoring Report (HFMR) reporting submissions, which are used for the MCO rate calculations. Additionally, ongoing vendor audits incorporate procedures to test denied and zero pay encounters in the CY2023 and CY2024 procedures. Feedback was provided from our vendor to the MCOs, and encounter data quality is reviewed as part of the MCPA led quarterly encounter data workgroup meeting. For CY2025, the vendor will audit for denied claims and adjustments to exclude denied claims will be made for CY2025 dates of service used for rate setting. MDH will review this work as part of the regular		

	meetings with the vendor. The audit is expected to be completed by April 2027. MDH will update the SOP to reflect these procedures. The MDH Office of Internal Controls, Audit Compliance & Information Security (IAC/S) will begin testing existing procedures during CY2026 and will validate final procedures by June 30, 2027.		
Recommendation 1b	Agree	**Estimated Completion Date:**	12/31/26
Please provide details of corrective action or explain disagreement.	MDH has developed an internal review of paid claims and accepted encounters on an ongoing basis, beginning with services provided in CY 2020 and CY 2021, to detect duplicate payments, determine the accurate responsible payor, and instruct the payor reimbursing the duplicate payment to recoup funds from the provider. A vendor produces an annual report identifying duplicate payments to providers by matching MCO encounters and Administrative Service Organization (ASO) claims based on the provider, recipient, and date of service. Thus far, the analysis has been limited to a set of diagnosis, revenue, and medical bed codes associated with the carve-out. MDH has recruited a new Coding and Compliance Specialist to complete this effort by June 30, 2026. IAC/S will validate the process by December 31, 2026.		
Recommendation 1c	Agree	**Estimated Completion Date:**	12/31/26
Please provide details of corrective action or explain disagreement.	The duplicate claims identified in the report described in the response to Recommendation b will first be organized and reviewed by provider type and diagnosis code to determine the responsible payor. Once the responsible payor is identified, MDH will contact the MCOs and Administrative Service Organization (ASO) to instruct them to recoup payment from the provider for claims that were incorrectly paid by either entity. The entity reimbursing for the duplicate claim will then be required to provide proof they paid the claim identified and evidence of recoupment to MDH. This reconciliation and recoupment will take place on a quarterly basis. IAC/S will validate this process by December 31, 2026.		

Maryland Department of Health
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Managed Care Program

Agency Response Form

Improper Medicaid Payments

Finding 2
MCPA did not have an effective process to identify capitation payments to MCOs for incarcerated individuals, resulting in improper payments totaling $7.8 million.

We recommend that MCPA ensure incarcerated individuals are timely disenrolled from MCOs to prevent improper capitation payments (repeat).

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 2	Agree	**Estimated Completion Date:**	12/31/26
Please provide details of corrective action or explain disagreement.	To facilitate the most comprehensive match process, MCPA has engaged in several discussions with DPSCS following the previous audit to address file integrity, ensuring that the most precise and complete incarceration data is supplied, thereby allowing for the identification of all incarcerated recipients. Further, our efforts include incorporating the daily JAIL inmate roster file into the existing PRISON inmate roster file process which occurred in March 2025. This strategy enhances MCPA's capacity to broaden the inmate dataset, thereby capturing complete incarceration data and improving MCPA's capability to conduct a more expansive comparison with the Medicaid eligibility database. Our most recent meeting with DPSCS occurred in December 2025. Based on the meetings held to date, MCPA is optimistic that future incarceration records sent from DPSCS to MDH will allow for more timely and accurate identification of incarcerated recipients that should be removed from MCO thus avoiding erroneous capitation payments. IAC/S will validate the corrective actions during the fourth quarter of CY 2026.		

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Medical Care Programs Administration
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Agency Response Form

MCO Supplemental Payments

Finding 3
MCPA did not investigate and recover $13.8 million in potentially improper supplemental payments to MCOs for newborn deliveries.

We recommend that MCPA

a. investigate the propriety of all potentially improper newborn delivery supplemental claims (repeat); and

b. recover any amounts paid for improper claims, including those noted above (repeat).

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 3a	Agree	**Estimated Completion Date:**	12/31/26
Please provide details of corrective action or explain disagreement.	MDH has successfully reviewed CY2021 claims. For CY2021, there were a total of 23,669 newborn supplemental payment claims. A vendor validated 98.8% (23,393) of the newborn supplemental payment claims using encounter data and enrollment data, and 1.2% (276) of the claims were unable to be validated by encounter and enrollment data. Based on documentation MCOs provided, only 24 claims required retraction, totaling $363,832.55 in recoupments. The vendor has now completed validation reviews for CY2022 (98.7% validated), CY2023 (98%), and CY2024 (98.6%). MDH anticipates completing reviews of 817 (204 from CY 2022, 316 from CY2023, and 297 from CY2024) unvalidated deliveries by Q1 CY2026.		
Recommendation 3b	Agree	**Estimated Completion Date:**	12/31/26

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Please provide details of corrective action or explain disagreement.	After the process outlined above, MDH identifies deliveries that could not be verified by the MCOs based on the documentation they provided. MDH retracts the newborn supplemental kick payments from the MCO. MDH anticipates completing the review and necessary retracted payments for CY2021 - CY2024 by the end of Q1 CY2026. IAC/S will review the validations and collections by 12/31/2026.

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Interagency Agreement

Finding 4
MCPA did not ensure that payments made to a State university were adequately supported, were reasonable in relation to the tasks performed, and in accordance with the terms of the agreement.

We recommend that MCPA

a. implement a process to ensure the propriety of State university invoices. For example, obtain and review payroll records or restructure the agreement to base payment on specific deliverables to be monitored by MCPA, or a combination thereof; and

b. ensure all staffing changes are documented and approved.

Agency Response			
Analysis	**Factually Accurate**		
Please provide additional comments as deemed necessary.			
Recommendation 4a	Agree	**Estimated Completion Date:**	6/30/26
Please provide details of corrective action or explain disagreement.	**Enhanced Verification Process for Invoice Charges** MCPA agrees with the recommendation to continue strengthening its invoice review process and provides additional information on the enhanced verification process it has developed to address this finding and remain in compliance with the terms of the agreement. These enhancements are focused on (1) post-payment review and reconciliation of payroll charges and effort to be completed twice annually based on review of the report of effort, (2) review of contractor and subaward costs, and (3) review of other direct costs. These changes have been implemented for invoices received in FY26. With respect to (2) and (3), the Department will randomly check expense invoices reported in the grant summary reports (GSR) and grant detail reports (GDR) as part of monitoring and verifying related expenses. Additionally, MDH will request UMBC Hilltop to add entries in the monthly progress report to		

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	reflect the names of staff who were involved in the progress/delivery of the project deliverables.		
Recommendation 4b	Agree	**Estimated Completion Date:**	3/31/26
Please provide details of corrective action or explain disagreement.	MCPA is in the process of developing a Staffing Change form for the University to use for this purpose going forward. This Staffing Change Request Form will require the inclusion of the employee's name, title, required skills and the employee's expertise (documented in the employee's resume), and confirmation of their specific budgeted Full Time Equivalent (FTE) effort percentage and amount. Requiring the signature of the MCPA Contract Monitor prior to the start date will formally ensure that all personnel changes are documented, approved, and aligned with the contract's scope and budget before any associated payroll expenses are incurred. The form is expected to be implemented by March 2026.		

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