

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Health and Hospitals
Baton Rouge Main Office Operations
State of Louisiana
Baton Rouge, Louisiana

February 4, 1997



Financial and Compliance Audit Division

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Legislative Auditor***

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**DEPARTMENT OF HEALTH AND HOSPITALS
BATON ROUGE MAIN OFFICE OPERATIONS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Management Letter
Dated December 17, 1996**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

February 4, 1997



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December 17, 1996

**DEPARTMENT OF HEALTH AND HOSPITALS
BATON ROUGE MAIN OFFICE OPERATIONS
STATE OF LOUISIANA
Baton Rouge, Louisiana**

As part of our audit of the State of Louisiana's financial statements for the year ended June 30, 1996, we conducted certain procedures at the Department of Health and Hospitals (Baton Rouge Main Office Operations). Our procedures included (1) a review of the department's internal control structure; (2) tests of financial transactions; (3) tests of adherence to applicable laws, regulations, policies, and procedures governing financial activities; and (4) a review of compliance with prior year report recommendations.

The Annual Fiscal Report of the Department of Health and Hospitals (Baton Rouge Main Office Operations) was not audited or reviewed by us, and, accordingly, we do not express an opinion or any other form of assurance on that report. The department's accounts are an integral part of the State of Louisiana's financial statements upon which the Louisiana Legislative Auditor expresses an opinion.

Our procedures included interviews with management personnel and selected department personnel. We also evaluated selected documents, files, reports, systems, procedures, and policies as we considered necessary. After analyzing the data, we developed recommendations for improvements. We then discussed our findings and recommendations with appropriate management personnel before submitting this written report.

In our prior audit of the Department of Health and Hospitals (Baton Rouge Main Office Operations) for the year ended June 30, 1995, we reported findings relating to provider audits, allocation of block grant funding, audit report monitoring, medical assistance trust fund, rate setting, Medicaid cash management, confidentiality of Medicaid recipient information, cash management of block grants, drug-free workplace, movable property records, time and attendance records, on-line time and leave entry system, and annual and sick leave. The findings relating to provider audits, rate setting, audit report monitoring, and annual and sick leave have been resolved by the department. Although the finding relating to confidentiality of Medicaid recipients has not been fully resolved by management, the remaining issue is not significant and is not included in this report. The finding relating to allocation of block grant funding could not be reviewed for compliance with prior year recommendations because no previously untested grant was complete during the fiscal year ended June 30, 1996. Further examination for compliance with recommendations relating to this finding will be performed in 1997. The remaining findings have not been resolved and are addressed again in this report.

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Based upon the application of the procedures referred to previously, all significant findings are included in this report for management's consideration.

Provider Overpayments

The Department of Health and Hospitals (DHH) may have overpaid providers in the Medical Assistance Program (CFDA 93.778, Medicaid) by an estimated \$472,606 for automated chemistry, hematology, and urinalysis laboratory procedures. Also, the department could have saved an additional \$47,639 by requiring that providers combine or bundle two chemistry tests into one panel code instead of beginning bundling at three tests.

Medicare, Medicaid, and Louisiana rules and regulations govern the provider payments for laboratory services and require that certain automated tests for chemistry, hematology, and urinalysis be "bundled" into panels for billing purposes. Specific combinations of tests when billed as a single procedure rather than as individual tests, result in a lower cost to the program. In a financial related audit report, dated August 16, 1995, we identified potential overpayments to providers totaling \$1,079,129 for the calendar years 1993 and 1994. Our examination of provider payments for the calendar year 1995 disclosed the following:

1. Of 50 claims sampled for automated chemistry billings, which totaled \$1,233, 41 claims (82 percent) resulted in potential overpayments totaling \$609. When statistically projected to the population of 31,325 claims totaling \$919,314, the potential overpayment to providers is \$453,981, or 49.38 percent of the population dollars.

Our examination also included a review of an estimated 5,967 instances in which only two automated chemistry tests were performed and were billed separately. Had these tests been billed as a single procedure (a panel code), the department could have saved an additional \$47,639.

2. Of 50 claims sampled for automated hematology billings, 11 resulted in potential overpayments totaling \$53. When statistically projected to the population of 12,404 claims totaling \$111,691, the potential overpayment to providers is \$13,176, or 11.8 percent of the population dollars.

During our review, we noted that two specific hematology procedure codes, which may be billed together under certain circumstances, but generally would not be, were billed a total of 1,285 times, comprising 10.36 percent of the total population of 12,404 claims. Our review

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disclosed that 1,018 of these instances, 8.21 percent of the total population, were billed by one provider.

3. Of 50 claims sampled for automated urinalysis billings, all items resulted in potential overpayments totaling \$177. When statistically projected to the population of 1,541 claims paid totaling \$12,582, the potential overpayment to providers is \$5,449, or 43.31 percent of the population dollars.

We estimate that total overpayments to providers for 1995 paid claims total \$472,606, and we estimate the amount due to the Health Care Financing Administration for the federal share of these overpayments is \$357,089.

While the Medicaid Management Information System (MMIS), which is operated by the fiscal intermediary, Unisys, includes edits to ensure that automated chemistry tests are properly bundled, these edits do not appear to be sufficient to detect and prevent payment for tests that are not properly bundled and/or duplicated. In addition, there were no edits to ensure hematology and urinalysis tests are properly bundled. As a result, overpayments that are significant either in dollars or as a percentage of total claims for a specific category, as described previously, may occur. This condition indicates that additional provider overpayments in other areas may have occurred and not been detected timely.

DHH and its program integrity section should review the potential overpayments and refer them to the Surveillance Utilization Review System (SURS), DHH internal legal counsel, and/or the Louisiana Attorney General's Medicaid Fraud Control Unit for investigation and recoupment of any amounts due from providers for overpayments. In addition, the department should review the MMIS computer edits to determine why they are not operating as defined and should consider adding edits for hematology and urinalysis tests. Finally, DHH should determine what impact the previous conditions may have on other categories of provider payments. In a letter dated November 15, 1996, Mr. Thomas D. Collins, Director of the Bureau of Health Services Financing, concurred with the finding. Mr. Collins stated that edits to prevent most of these problems were placed in operation in November 1995. The system will be further investigated to determine what is causing the problems with urinalysis codes and corrective action will be taken once the problem is identified. The providers involved in these findings will be reviewed for feasibility of recovery and/or to determine if a SURS case needs to be opened.

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Inadequate Controls Over Movable Property

For the eleventh consecutive year, various offices within DHH did not maintain adequate controls over movable property and did not comply with the state's movable property laws and regulations. Louisiana Administrative Code 34:VII.307 requires that all acquisitions of qualified property be tagged and all pertinent inventory information be sent to the Louisiana Property Assistance Agency (LPAA) within 45 days after receipt of the property and 34:VII.313(A) requires the property manager to record the true and actual results of the annual physical inventory. Departmental procedures require that approval be obtained from an assistant secretary or the undersecretary before items of equipment can be removed from the official work domicile.

Our review disclosed the following:

- Forty-two of 94 items (\$41,776 of \$90,232) purchased during the year were not tagged and added to the inventory system until 49 to 267 days after receipt of the property, and as of May 20, 1996, 23 of these items have not yet been added to the inventory system.
- Two of four items that were unrecorded and untagged in the prior year audit test were still untagged and unreported to LPAA although it has been 473 days since these items were received.
- A desk top computer and monitor were located at the home of an employee and a notebook computer in the employee's car. These items were not tagged and were not included on the movable property inventory. There was no evidence that the required approval for home use of this equipment had been obtained.
- One of 27 items (\$751 of \$22,976) selected for physical examination could not be located.
- One of 27 items (\$503 of \$22,976) selected for physical examination that was listed on New Orleans Mental Health Clinic's (NOMHC) inventory list was not at that location. Further investigation of this matter disclosed that NOMHC's movable property inventory list contained 62 items costing \$71,773 that were not under the custody of the NOMHC property manager. These items were traced to other agencies as follows:

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- . NOMHC indicated that 44 items costing \$47,314 were located at New Orleans Adolescent Hospital (NOAH). We located 30 of the items valued at \$35,927 on NOAH's current movable property inventory. Two of the items valued at \$7,823 were added to NOAH's movable property inventory but have since been removed when they were scrapped. We could not determine from a review of NOAH's current movable property inventory the status of the remaining 12 items valued at \$3,564.
- . NOMHC indicated that 16 items costing \$22,732 were at Chartres-Pontchartrain Mental Health Center (CPMHC). We found two of the items valued at \$1,404 on CPMHC's current movable property inventory. However, we could not determine from a review of the CPMHC's current movable property inventory the status of the remaining 14 items valued at \$21,328.
- . Two items valued at \$1,727 were located at the Region 1 pharmacy and are listed on the region's movable property inventory.

These problems continue because the property manager is not receiving timely information from the department's property coordinators and/or other difficulties in monitoring remote movable property locations. Failure to maintain an accurate movable property system increases the risk of loss arising from unauthorized use and subjects the department to noncompliance with state laws and regulations. Furthermore, duplicate listing of property causes inaccuracies in the financial statements of the State of Louisiana.

DHH should ensure that all property is tagged and the required information is transmitted to LPAA timely and that all departmental movable property procedures are being followed. The department should also review the movable property inventories of NOMHC, NOAH, CPMHC, and Region 1 pharmacy and make all necessary corrections. In a letter dated June 14, 1996, Mr. Charles L. Lazare, Deputy Undersecretary, stated that the department concurred with the finding. Mr. Lazare stated that the department's efforts to follow up on timely tagging of equipment were hampered because of difficulties in obtaining reports of equipment purchases from the new Advanced Government Purchasing System. However, this problem has now been resolved. Furthermore, the department has instituted additional procedures to aid it in its goal of eliminating this finding. In a letter dated August 30, 1996, Mr. David McCants, Director of the Division of Fiscal Services, Office of Human Services, stated the problems at NOMHC occurred because documents submitted to LPAA were not processed as submitted. The

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department is currently working with LPAA to make the necessary corrections and will continue to stress to all employees the importance of compliance with property rules and regulations.

Improper Contract Monitoring

DHH has not properly set perimeters or monitored contracts with the Office of Alcoholic Beverage Control (OABC). This contract was intended to ensure compliance with the Synar Amendment to the Public Health Service Act that regulates the sale and distribution of tobacco products to individuals under the age of 18. The Synar Amendment requires states to adopt and enforce laws to reduce the sale and distribution of tobacco products to minors. These requirements must be met to receive funds under the Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959). For the first and second years the amendment is applicable (1994 and 1995), the Code of Federal Regulations (45 CFR 96.130) requires states, at a minimum, to conduct annually a reasonable number of random, unannounced inspections of outlets to ensure compliance with the law. In the final rule published in the *Federal Register* on January 19, 1996, an inspection is described as sending a supervised minor to attempt to purchase tobacco (a sting.) Although the rule indicates that states are not required to use the sting method for implementing the requirement of random, unannounced inspections, it also indicates that there is no other valid alternative method known.

We audited the contracts between DHH and the OABC for state fiscal years 1995 and 1996 and noted the following:

- The department contracted with an agency that is prohibited by law from independently conducting sting operations even though a sting is the only known and acknowledged method to accomplish the goals of the Synar Amendment. In written correspondence to the department, the OABC acknowledged that it cannot conduct stings independently but cooperates with local law enforcement agencies in these efforts. It is questionable that OABC can conduct a representative number of random operations if it cannot select the number of inspections to conduct and the location of each operation.
- The department did not monitor the results of the sting operations to determine if the activities of the board met the federal requirements. The board reported that it performed 115 stings in 1995 with 26 percent of the stores selling tobacco to minors and 146 stings in 1996 with 66 percent of the stores selling tobacco to minors. However, the department did not

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have any reports on hand indicating which stores were tested, how the store was selected, et cetera. We obtained two example reports from the board, one of which was for a sting operation on a store that did not sell tobacco products. We were unable to determine if this operation was included in the statistics provided to the department. Furthermore, the results of the inspections may not represent the true failure rate of stores selling tobacco if the stores were not selected randomly.

Compensation to the OABC is not directly related to the services rendered for DHH. For state fiscal year 1995, DHH paid the board \$60,604 on a maximum contract of \$129,084. This was payment for three automobiles, three personal computers, and a laser printer. There is no indication that this equipment is used exclusively for the inspection operations conducted on behalf of DHH. Furthermore, it is unlikely that sting operations could be conducted without incurring personnel and travel costs. For state fiscal year 1996, DHH again contracted with the board for \$129,084 and paid \$118,411. These expenditures include personal services and related benefits for enforcement agents and clerical staff at 17 percent and 12.5 percent, respectively. The department could not provide evidence that these personnel are spending the corresponding percentage of their time on DHH related activities. Based on the number of stings reported by the board, each sting cost \$527 in 1995 and \$811 in 1996. The wide difference between these numbers may be the result of using a payment method that is not directly related to the services received and there is no assurance that either figure represents a fair compensation for the services received.

The department did not adequately monitor billings from the board. For fiscal year 1996, the department overpaid related benefits by \$4,376 and paid the board \$3,529 for camcorders, tapes, and radios purchased two days before the end of the contract. Because of the timing of the purchases, their relationship to the execution of the contract is questionable. Subsequent to our detection of these matters, the board adjusted its billings for these items.

These conditions occurred because the department did not place sufficient emphasis on letting and monitoring this contract. Failure to set compensation to contractors based on the services received and failure to monitor billings can result in unnecessary costs to the state. Furthermore, failure to monitor the performance of the contract can result in noncompliance with the Synar Amendment. Should this occur, up to 40 percent of the award for the Block Grants for Prevention and Treatment of Substance Abuse can be

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withheld. DHH should (1) consider whether OABC's inability to conduct stings without the assistance of law enforcement officers makes it an inappropriate contractor for this service; (2) consider whether OABC's need to use law enforcement officers in sting operations preclude randomness of selection (i.e., the stores are selected by law enforcement based on tips or randomly by OABC); (3) set compensation to the contractor based on a measurable service and at a rate that is fair to both parties; (4) require reports that have sufficient detail from which to determine that the department is in compliance with the Synar Amendment; and (5) monitor payments to the contractor to ensure that those payments are in compliance with the terms of the contract. In a letter dated November 13, 1996, Mr. Alton E. Hadley, Assistant Secretary of the Office of Alcohol and Drug Abuse, concurred with the finding. Mr. Hadley presented a detailed plan to ensure that sample sizes are appropriately determined, that costs are directly related to the services rendered, and that billings are monitored. Although OABC does need approval of local law enforcement authority before conducting sting operations, Mr. Hadley believes that this is still the appropriate agency to provide these services because it has received appropriate training for this purpose.

Medicaid Cash Management Errors

For the third consecutive year, DHH has not complied with the Cash Management Improvement Act (CMIA) Agreement. The agreement was entered into between the State of Louisiana and the U.S. Department of the Treasury to achieve greater efficiency, effectiveness, and equity in the transfer of federal funds as required by the Cash Management Improvement Act of 1990, as amended by the Cash Management Improvement Act Amendments of 1992. The Code of Federal Regulations, 31 CFR 205, applies to the agreement, which specifies the procedures to be used for the five types of draws made by the department for the Medical Assistance Program (CFDA 93.778, Medicaid). Our examination disclosed the following:

1. The department overdrew federal funds for two of the six weekly checkwrites tested and incurred interest liability estimated as follows:

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<u>Date of Overdraw</u>	<u>Amount Overdrawn</u>	<u>No. of Days Overdrawn</u>	<u>Estimated Interest Liability</u>
February 6, 1996	\$7,879	\$100	\$110
April 9, 1996	687,137	15	1,115
Total	<u>\$695,016</u>	<u>\$115</u>	<u>\$1,225</u>

2. Section 6.1.3 of the CMIA Agreement specifies the manner in which the department is to draw funds for federal and state holidays. If the holiday is federal, then the department may draw funds for receipt on the day before the holiday. If the holiday is state only, funds are to be drawn for receipt on the day after the holiday.

Of 16 holiday transactions examined, the department drew funds for receipt after a federal holiday on seven occasions. As a result, the department was underdrawn from \$2,130,436 to \$11,238,038 for periods ranging from two to four days. Interest lost by the state because these funds were unavailable for investment is estimated at \$15,500.

The department also drew \$6,575,071 for receipt the day before the Good Friday holiday, which is not a federal holiday. DHH was overdrawn for one day, resulting in a potential interest liability of \$957.

The department did not comply with the CMIA Agreement because it did not establish adequate procedures or did not consistently follow procedures that would have ensured compliance with the agreement. Failure to properly calculate the amount of each federal draw exposes the state to interest penalties when an overdraw occurs and reduces the amount of the state's interest earnings when funds are underdrawn.

DHH should establish procedures to ensure that funds are drawn timely and in compliance with the CMIA Agreement. In a letter dated July 25, 1996, Mr. Stan Mead, Director of the Division of Fiscal Management, concurred with the finding and stated that the department had implemented procedures to identify errors as quickly as possible although it is very difficult to prevent all errors when funds are drawn on a daily basis. Mr. Mead further stated that the original CMIA Agreement did not specify the manner in which funds were to be drawn on holidays and the department did not receive a copy of the agreement after this provision was added. The department has now made

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appropriate changes to its procedures regarding the draw of funds for holidays and has requested copies of all subsequent changes to the agreement.

Inaccurate Accounting for Block Grant Expenditures

DHH does not have an adequate accounting system to track and classify expenditures for the Block Grants for the Prevention and Treatment of Substance Abuse (CFDA 93.959, SAPT Block Grant). SAPT block grants are awarded annually, but states are allowed to expend grant funds over a two year period provided the funds are obligated by the end of the first year in accordance with United States Code, 42 USC 300x-62. In addition, 42 USC 300x-30 requires states to maintain a level of state expenditures of no less than the average for the two year period preceding the fiscal year for which the state is applying for the grant. Failure to meet this maintenance of effort requirement results in a dollar for dollar reduction in the grant award.

Our review of SAPT Block Grant expenditures disclosed the following:

- State expenditures fell short of the amount needed to meet the maintenance of effort requirements by \$2,679,350 although \$3,838,315 of state General Fund money remained unexpended at June 30, 1996. This exposed the state to a potential reduction in the grant award of \$2,679,350.
- Department records indicated that the 1995 grant expenditures were overstated by \$1,995,512 because the department had not properly separated expenditures for the state fiscal year ended June 30, 1996, between the two active grants, the 1995 and 1996 awards.

When we made management aware of the noted errors, the department attempted to correct these errors and to minimize the state's potential loss of federal funds. Additional testing revealed the department failed to meet the maintenance of effort requirement for the fiscal year ended June 30, 1994, by \$189,101. The final adjustments proposed by the department resulted in the following consequences to the state:

- \$1,860,192 of state funds would be returned to the state treasury for the fiscal year ended June 30, 1995, requiring an adjustment to prior year fund balance of this amount in the current fiscal year.
- \$189,101 would be returned to the federal government for failure to meet the 1994 maintenance of effort requirement.

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Failure to adequately segregate, monitor, and report SAPT Block Grant expenditures increases the risk that the department will be unable to draw and use all of the federal funds available. Furthermore, because undesignated, unreserved fund balance in the state General Fund is dedicated to the early retirement of state debt, errors in amounts returned to the state treasury can cause too much or too little debt to be retired.

DHH should develop and implement procedures for tracking expenditures to ensure compliance with the requirements of the SAPT Block Grant, to maximize the use of federal funds, and to ensure accurate financial reporting. In a letter dated November 26, 1996, Mr. Stan Mead, Director of the Division of Fiscal Management, concurred with the finding and indicated that the department is initiating steps to correct the deficiencies.

Medical Assistance Trust Fund

For the third consecutive year, DHH has not maintained adequate controls over fees due from providers to the Medical Assistance Trust Fund to ensure that amounts reported by providers are accurate. Fees due to the Medical Assistance Trust Fund are established by Louisiana Revised Statutes (LSA-R.S.) 46:2601-2605. Providers are responsible for preparing and submitting reports of fees due to the fund and for remitting payments at that time. Trust fund collections were reported at \$71,462,429 for the year ended June 30, 1996. A good system of internal control would provide assurance that all fees are accurately reported.

Our review of the Medical Assistance Trust Fund disclosed that the department had entered into a contract with an independent accounting firm for audits of fees due from pharmacies, which constitute approximately 5 percent of total collections. This contract was effective January 1, 1996; however, the contract was not approved by the Division of Administration, Office of Contractual Review until May 23, 1996. At June 30, 1996, no audits have been conducted, and no other procedures are in place to provide for assurance that providers reported and remitted the correct fees. There were no audit procedures or contracts in place for any other provider types that make up the remaining 95 percent of collections.

Failure to establish adequate controls over reports filed by providers increases the likelihood that material misstatements in fees due to the department can occur or that errors may occur and go undetected. The department's ability to monitor amounts due and collect amounts that become past due would also be impeded.

DHH should establish procedures to ensure accurate monitoring and reporting of fees due from providers to the Medical Assistance Trust Fund. In a letter dated July 25,

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1996, Mr. Stan Mead, Director of the Division of Fiscal Management, concurred with the finding and stated that in addition to the contract for audits of fees due from pharmacies, the department has now contracted for audits of long-term care providers required to submit fees to the Medical Assistance Trust Fund.

Cash Management of Block Grants

For the third consecutive year, DHH improperly drew federal funds under the Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959). Good governmental accounting practices would require that available funding sources be used in the order that maximizes interest earnings for the state. DHH was entitled to \$4,780,561 over a period of six months, from July through December 1995, as follows:

July	\$835,823
August	733,201
September	904,066
October	942,326
November	775,298
December	589,847
Total	<u>\$4,780,561</u>

Although the department was entitled to these funds, it failed to draw the funds until December 1995. This occurred because of a failure to include expenditures for all applicable projects in the computation of the federal draw amount. Failure to draw adequate funds from a federal program results in the use of state funding for eligible federal expenditures. This constitutes poor management of state assets and results in reduced interest earnings (estimated at \$58,565) for the state.

DHH should ensure that all applicable project expenditures are included in the computation of the federal draw amount. In a letter dated July 25, 1996, Mr. Stan Mead, Director of the Division of Fiscal Management, concurred with the finding. Mr. Mead believes that the department's procedures are adequate and that the errors were the result of new employees' unfamiliarity with those procedures. Future draws should be accurate now that those employees have had time to become familiar with department procedures.

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**On-Line Time and Leave Entry System and
Associated Time and Attendance Records**

DHH did not consistently follow its internal control procedures that are designed to ensure that the department has complied with Civil Service rules and regulations and that time and attendance records supporting \$117,342,163 of expenditures for personal services are complete and accurate. We examined the controls and records of five timekeeping units for two pay periods each and noted the following conditions:

- At four of the five offices tested, the timekeeper performs incompatible functions because the same employee who keys in the time and leave also reviews the reports generated by the Uniform Payroll System for accuracy. A good internal control system should provide adequate segregation of duties so that no one employee would be in a position to both initiate and conceal errors or irregularities. This is the second consecutive year this condition has been reported.
- Thirty-three employees did not certify (sign) their time and attendance records and there was no supervisor certification of 14 time and attendance records. At the one unit that uses a time clock instead of a sign-in sheet to record time and attendance, time cards were missing for two employees for the pay period ending January 28, 1996. Furthermore, on days when an employee fails to punch in and out, the timekeeper assumes that the employee worked an eight hour day. Civil Service Rule 15.2 requires the employee and supervisor to certify the number of hours of attendance or absence from duty on the time and attendance record. This is the third consecutive year the department has failed to ensure that all time records are certified and the second consecutive year that timekeepers have assumed an eight hour workday when attendance records are incomplete.
- There were no leave slips to support hours of sick and/or annual leave taken by 18 employees; 12 leave slips, although present, were unsigned by the employee and/or the supervisor; and two leave slips did not agree with the hours recorded on the attendance record and entered into the On-Line Time and Attendance System. DHH Policy 1215-92, Section XVIII requires that all leave be supported by a leave slip signed by both the employee and the employee's supervisor. This is the second consecutive year this condition has been reported.

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- Thirty-six employees were paid for a total of 135 hours of overtime although the timekeepers did not have documentation that the overtime was authorized as required by DHH Policy Number 1215-92, Section XI.
- Periodic random audits of pay period files maintained at the timekeeping unit level were not being conducted. The Office of State Uniform Payroll On-Line System User's Manual requires each agency to develop a random audit procedure to confirm that required time entry documentation is maintained within each timekeeping unit. To comply with this requirement, DHH Policy 1215-92, Section XVI requires each timekeeping unit manager to develop internal procedures for periodic audit of pay period files and further requires each timekeeping manager to submit a copy of all internal procedures to payroll headquarters. In addition, Section VII of the DHH policy requires headquarters to monitor the performance of unit timekeepers for compliance with DHH policy and procedures. No internal procedures for periodic audits have ever been submitted to headquarters by the timekeeping unit manager. Headquarters did develop a procedure which requires audits by headquarters personnel of 23 timekeeping units each quarter. However, no audits were conducted during the fiscal year under review.

Although the department has policies and procedures that contain many elements of a good internal control system, these procedures are not followed uniformly. In addition, abandonment of the monitoring function may contribute to noncompliance because management is not sending a clear message regarding the importance of following established procedures. Because Civil Service regulations and the department's internal control procedures are not always followed, there is increased risk that inaccurate, unsupported, or fraudulent data could be entered and processed and such errors may not be detected within a reasonable time.

DHH should reemphasize the need to follow its internal control policies and procedures regarding the On-Line Time and Leave Entry System and the related time and attendance records. Furthermore, the department should reestablish its monitoring function or develop some alternative monitoring procedures that would ensure that employees are adhering to department policy. In a letter dated August 1, 1996, Mr. David W. Hood, Undersecretary, concurred with the finding and recommendation.

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Uncollected Loans

DHH has not taken sufficient action to collect \$698,421 due from outstanding loans made under the Community Residential Development Fund (CRDF). The CRDF was established by the legislature through Act Number 770 of 1981 (LSA-R.S. 46:2390-2396). The Act authorized the Department of Health and Hospitals (then DHHR) to grant loans representing start-up expenses to eligible private non-profit organizations to provide needed community residential programs for the physically and mentally disabled. DHH, under this program, made 22 loans during 1982 and 1983 totaling \$791,943.

The legislative intent of LSA-R.S. 46:2392 was that the providers of residential services would have sufficient funds to pay back initial costs financed by the CRDF from their per diem rates for serving eligible clients. However, DHH promulgated a rate-setting manual that did not contemplate CRDF expenditures for repayments of these loans to be allowable costs for rate setting purposes. The rates that were paid to CRDF providers under these rules were not adequate to generate sufficient funds to repay the loans made to defray the CRDF start-up costs.

On May 19, 1993, the Attorney General issued Opinion No. 93-210 that provided a solution to this matter. The Attorney General stated that the department should calculate the amounts that would have been due the facilities if the start-up costs had been included as allowable costs in establishment of the per diem rates and reduce the CRDF loans by the differential between the amounts calculated under the old and new rates. The department should then request repayment of the adjusted CRDF loan balances. Because the department did not place sufficient emphasis on this matter, it did not recalculate the amount owed by the facilities in accordance with the Attorney General's Opinion until September 20, 1995. At that time the amount owed on the 22 loans was reduced to \$698,421. As of June 30, 1996, the department has not requested repayments from any of the providers although it has been over three years since the Attorney General ruled on this matter.

Further delays by the department in attempting to collect amounts owed will only reduce the chances of successful collection of amounts owed to the state. Therefore, the department should immediately proceed to collect the outstanding balance of \$698,421 due on CRDF loans. In a letter dated September 19, 1996, Mr. Stan Mead, Director of the Division of Fiscal Management, concurred with the finding and recommendation. Mr. Mead stated that the former head of the institutional reimbursement unit received appropriate instructions but failed to take action on the matter for two years. Upon her

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replacement, the new head of the unit made the appropriate calculations and the department is now preparing to send demand letter to the facilities.

Cost Allocation Errors

DHH did not allocate the administrative costs of the regional offices of the Office of Alcohol and Drug Abuse to federal programs in accordance with the federally approved cost allocation plan. The Office of Management and Budget (OMB) Circular A-87 and 45 CFR Part 95, Subpart E require the department to prepare, obtain approval for, and follow a plan for the allocation of indirect costs to all programs administered by the department. The approved plan contains a cost pool for regional administrative costs; however, because regional staff may also have some duties relating to treatment, the department is not using this cost pool. Instead, all regional costs were placed in pools that accumulate costs relating to the treatment of alcohol and drug abuse.

The costs in the administrative and treatment pools are used to calculate various set-aside requirements of the Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959) and failure to place costs in the approved pools may cause the department to exceed the 5 percent restriction on administrative costs and to spend less than the mandated 35 percent each on alcohol and drug treatment. Because of the manner in which regional offices are budgeted and expenditures are captured, we were unable to determine total expenditures for the regional offices. Because of the manner in which the duties of the regional staff overlap between administrative and clinical activities, we are also unable to determine what portion of regional office expenditures should be allocated to administration and what portion should be allocated to treatment.

DHH should ensure that its cost allocation plan will properly allocate expenditures between programs and follow that plan once it has been approved by the federal oversight body. Furthermore, the department should review the allocation of regional office expenditures for both the 1994 and 1995 block grant periods to determine if costs were correctly allocated and if all set-asides were met. In a letter dated September 18, 1996, Mr. Stan Mead, Director of the Division of Fiscal Management, concurred that regional costs were placed in pools other than the one established for regional administrative costs. However, he believes the cost allocation plan has been followed because the pool was established to capture and allocate cost for planning, implementation and evaluation of the programs in the regions. He pointed out that the regional managers also have direct oversight of treatment and prevention programs. However, he agreed to allocate regional administration staff costs in the future.

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Additional Comments: If the cost pool in question was established to capture costs for planning, implementation and evaluation of the programs, either none of these functions were performed, since no costs were recorded in the pool, or the plan was not followed. If, as stated, the regional staff have duties relating to both treatment and administration, the department's cost allocation plan should be set up so that each cost is captured appropriately.

**Audits of Federal Subrecipients
and State Contractors Not Obtained**

DHH failed to adhere to federal requirements and departmental policies that require audits of subrecipients and social services contractors. The Single Audit Act of 1984 (Public Law 98-502) requires the department to ensure that each subrecipient of federal pass-through funds totaling \$25,000 or more has an annual audit in accordance with the applicable OMB Circular (A-128 or A-133). In addition, departmental policy requires that *all state/local governments and corporations (profit/nonprofit) other than subrecipients that have a social services contract with the department and receive \$100,000 or more in funds from one or more state contracts must have a financial and compliance audit performed in accordance with Government Auditing Standards.*

During the fiscal year ended June 30, 1996, the department developed a comprehensive monitoring system to track contracts that require audits and to monitor the receipt of audit reports and the resolution of any findings. In addition, policy numbers 3175-95 and 3105-96 were issued defining responsibility in the department for audit report monitoring and defining federal and departmental audit requirements.

Our review of the monitoring system disclosed the following:

1. Ten of the 128 contracts funded by the Block Grants for the Prevention and Treatment of Substance Abuse (CFDA 93.959) required audits but did not appear in the monitoring system. Total expenditures for these contracts were \$410,233.
2. Ninety-two of the 251 contracts that required audits for the fiscal year ended June 30, 1995, were not submitted by June 30, 1996, although they were due by December 31, 1995. Total expenditures for these contracts were \$10,407,967.
3. Thirty-two of the 159 audits performed for the fiscal year ended June 30, 1995, had *unresolved audit findings at June 30, 1996*. Total expenditures for these contracts were \$4,001,824.

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These results indicate that employees are not following the established procedures for reporting audit information to the contracts management section, for ensuring that required audits are performed, and for ensuring that all findings are reviewed for subsequent resolution in a timely manner.

Failure to ensure that federal subrecipients or state contractors are audited in accordance with Government Auditing Standards increases the risk that federal and/or state funds will not be expended in accordance with applicable laws and regulations.

DHH should make employees aware of the importance in following departmental policies regarding audit requirements to ensure that federal subrecipients and social services contractors are audited as required by applicable laws and regulations and that all findings are reviewed for subsequent resolution in a timely manner. In a letter dated September 23, 1996, Mr. Stan Mead, Director of the Division of Fiscal Management, concurred with the finding and stated that the undersecretary has written a letter to department staff reaffirming the department's policy regarding audits.

Recovery Home Loan Program

DHH has not established adequate internal control procedures to ensure collections of loans totaling \$50,245 (including penalties) made under the Recovery Home Loan Program of the Block Grants for the Prevention and Treatment of Substance Abuse (CFDA 93.959). This program was formerly titled Alcohol and Drug Abuse and Mental Health Services Block Grant. Federal regulations, 45 CFR 96.129, allow for loans to provide housing for individuals recovering from alcoholism or other drug abuse. These regulations require that the state establish procedures for repayment which will set forth reasonable penalties for late or missed payments and liability and recourse for default. Because the department did not establish procedures at the time the loans were made, collection efforts were sporadic and inconsistent and no action was taken when default occurred. Delays in the pursuit of these receivables increase the risk that the loans are uncollectible. In addition, the federal grantor may require repayment of the balance of these outstanding loans.

DHH should establish procedures to ensure collections before any new loans are made. In addition, DHH should take the necessary steps to collect the outstanding loans or write off the loans in accordance with federal guidelines. In a letter dated June 28, 1996, Mr. Alton E. Hadley, Assistant Secretary of the Office of Alcohol and Drug Abuse, concurred that there were no set procedures for collecting defaulted loans but does not agree that lack of procedures led to any losses. Mr. Hadley believes that losses occur because the loans are made to high risk clients and points out that the loan program is a

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requirement of the block grant. Mr. Hadley further stated that future loans would be delayed until appropriate procedures have been developed and training provided for all persons associated with the program.

Cash Subsidy Program

DHH did not follow established guidelines for monitoring families receiving cash subsidy payments under the Community and Family Support System. A cash subsidy payment is a monetary payment to eligible families of children with developmental disabilities to offset the costs of caring for the child at home. Expenditures of the program totaled approximately \$1.9 million for the year ended June 30, 1996. The Louisiana Administrative Code (LAC) 48:16121, as well as internal policies and procedures established by the department, requires that regional staff contact each family at least every 90 days to monitor the status of the child. Thirty-seven of 60 (62 percent) case files examined did not contain documentation to support monitoring at least every 90 days.

Management has not placed sufficient emphasis on monitoring the status of children whose families receive cash subsidy payments. As a result, the department could incur unnecessary expenditures because families who become ineligible for the program may not be discovered and removed from the program in a timely manner.

DHH should develop procedures to ensure that each case is monitored in accordance with department policy and program guidelines contained in the Louisiana Administrative Code. In a letter dated August 14, 1996, Mr. Bruce C. Blaney, Assistant Secretary of the Office for Citizens with Developmental Disabilities, concurred with the finding and stated that all regional offices will be notified of this finding and instructed to complete the quarterly contact as mandated by the Louisiana Administrative Code and the internal policies and procedures of the department. In a memorandum dated September 10, 1996, Richard C. Lippincott, M.D., Assistant Secretary of the Office of Mental Health, stated that the Office of Mental Health is in the process of implementing corrective action.

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Audits of Medicaid Providers

DHH did not have an adequate internal control system to ensure that audits of pharmacy providers and long-term providers are obtained timely. Although the Code of Federal Regulations, 42 CFR 447.202, requires audits of records of providers enrolled in the Medical Assistance Program (CFDA 93.778, Medicaid) if payments are based on costs of services or on a fee plus cost of materials, no time frame is specified when these audits must be performed. During the period from July 1, 1995, to June 30, 1996, DHH did not perform or obtain any audits of pharmacy providers and long-term care providers (i.e., nursing homes and intermediate care facilities for the mentally retarded [ICF/MRs]). The department expended over \$300 million for prescribed drugs, over \$554 million for nursing facilities, and over \$311 million for ICF/MRs during fiscal year 1996.

Agreements with two private contractors to perform audits became effective in June 1996 and will include audits of the span of services that would normally have been audited during the fiscal year ended June 30, 1996. However, failure to ensure that audits are obtained timely increases the risk that overpayments or underpayments to providers could remain undetected for long periods causing unnecessary expenses for the state.

DHH should take the steps necessary to ensure that audits of Medicaid providers are conducted on a regular basis. In a letter dated October 22, 1996, Mr. Thomas D. Collins, Director of the Bureau of Health Services Financing, concurred with the finding and outlined steps to be initiated that are intended to ensure timely issuance of future contracts.

Medicaid Third Party Liability Errors

DHH has not adequately identified the existence of private health insurance for all recipients of the Medical Assistance Program (CFDA 93.778, Medicaid), and DHH has not ensured that Medicaid recipients have been informed that assignment of rights to private insurance to Medicaid is automatic. The Code of Federal Regulations (42 CFR 433.135 - 433.154) requires that state agencies take reasonable measures to determine the legal liability of third parties and requires assignment of those third party liability (TPL) rights to Medicaid. The CFR establishes the procedures by which the requirement is to be met. In addition, 42 CFR 433.146(c) allows states to make the assignment of TPL rights to Medicaid automatic under state law, eliminating the need for individual assignment of these rights, provided that the recipient is informed of the terms

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and consequences of the state law. Louisiana Revised Statute (LSA-R.S.) 46:153(E) provides automatic assignment under state law.

In a Memorandum of Understanding, dated July 1, 1988, DHH and the Department of Social Services (DSS), Office of Family Support (OFS) established the responsibility for each agency in determining eligibility for the Medicaid program. The agreement made DSS-OFS responsible for all eligibility determinations for both Medicaid and AFDC Family Support Payments to States - Assistance Payments (CFDA 93.560, AFDC). DHH has assumed responsibility for Medicaid eligibility determinations for non-AFDC recipients. However, the original agreement has not been updated to reflect this change.

Our audit included a review of case files for recipients whose eligibility determinations are made by both DHH and DSS. AFDC recipients are automatically eligible for Medicaid. For the state fiscal year 1996, the total monthly average of recipients of AFDC for whom DSS-OFS made determinations was 240,664.

1. Our test of compliance with TPL regulations for 50 recipients' case files disclosed the following:

Twenty determinations for eligibility were made by DSS-OFS. The AFDC application used by OFS does not include any statement indicating an assignment of TPL rights or that assignment of these rights is automatic in accordance with Louisiana law. In addition, there was no documentation in these 20 case files to show that recipients had been informed of the federal regulation and state statute requiring assignment of third party benefits.

One case file examined included two recipients who had third party insurance, but the Medicaid Management Information System (MMIS) operated by the fiscal intermediary, Unisys, through which payments to providers are processed, did not include this coverage in the recipients' resource files. Paid claims for these recipients totaled \$274.

2. Our test of compliance with eligibility requirements for a separate population of 45 recipients' case files disclosed that one recipient's case file indicated TPL coverage for the recipient's father, but there was no documentation to support a determination by the DSS-OFS eligibility determinations examiner that this coverage did or did not extend to the recipient (a minor child). Also, the application and case file did not include any indication that the recipient had been informed of the

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requirement to assign TPL rights to Medicaid in compliance with the federal regulation and state law. Paid claims for this individual total \$102.

Failure to ensure that there is documentation indicating that recipients have been informed that assignment of TPL rights to Medicaid is required and automatic, results in noncompliance with federal and state regulations and laws for 240,664 AFDC recipients. Furthermore, the state may incur unnecessary expenditures because of failure to adequately identify third party insurance and failure to ensure that MMIS files accurately reflect information contained in the recipient case files.

DHH should (1) update its Memorandum of Understanding with DSS-OFS, clearly defining responsibility for eligibility determinations and ensuring that AFDC applications include assignment of TPL rights to Medicaid and (2) ensure that the existence of TPL coverage for Medicaid recipients is adequately identified and that MMIS files accurately reflect information contained in the recipient case files. In a letter dated October 16, 1996, Mr. Thomas D. Collins, Director of the Bureau of Health Services Financing, concurred with the finding and stated that DSS had been informed of the errors. Mr. Collins also stated that the department is in the process of negotiating an updated memorandum of understanding with DSS.

Medicaid Eligibility Determinations Errors

DHH has not determined and established eligibility for recipients in the Medical Assistance Program (CFDA 93.778, Medicaid) in accordance with federal and state laws and regulations and departmental policies and procedures. The Code of Federal Regulations, 42 CFR 435, establishes the federal requirements for establishing Medicaid eligibility. The CFR contains requirements for required programs as well as guidance for allowable optional programs. DHH maintains a Medicaid Eligibility Manual (MEM) containing the policies and procedures to be used by eligibility determinations examiners (EDEs) to establish Medicaid eligibility. EDEs are furnished with forms manuals for their use in following the guidelines contained in the federal and state regulations and in the MEM. Generally, in accordance with federal regulations, eligibility redeterminations are conducted annually for recipients to ensure their continued eligibility.

The Code of Federal Regulations, 42 CFR 431.800 - 431.865, requires that states maintain a quality control function (MQC) designed to reduce erroneous expenditures by monitoring eligibility determinations. The CFR provides guidelines for the operation of the MQC function. States must submit copies of their corrective action plans to the Health Care Financing Administration (HCFA) annually. These plans describe the

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procedures states have established to correct errors in eligibility determinations. In 1993, HCFA suspended the requirement for annual submission of the plan for those states with error rates of less than 3 percent. DHH's MQC section has been reporting an error rate of less than 3 percent, and the department has not been required to submit a corrective action plan.

Medicaid eligibility is generally based on qualification in certain categories of assistance combined with restrictions on income and resources. Our review of the case files for 85 recipients disclosed the following:

1. Eight of 45 Medicaid recipients' case files examined disclosed errors in the determination process as follows (claims paid are based on on-line data from the computer system through which payments are processed, and usually will not extend beyond 18 months):
 - a. The recipient's case file did not contain a required medical certification and indications of existing income were present but were not pursued. Total claims paid for this recipient are \$15,922.
 - b. There was no budget worksheet in one recipient's case file, nor was the application for benefits adequately completed. Paid claims for this recipient total \$33,335.
 - c. The income of the recipient's parents was not verified properly. Paid claims for this recipient are \$546.
 - d. The recipient's case file did not contain a required medical certification, a reapplication was not signed and dated, and the "Rights and Responsibilities" section of the application was not given to the recipient. Paid claims for the period in question are no longer on-line.
 - e. A redetermination of eligibility, required annually, was not made for two and one half years. Paid claims for this recipient total \$103.
 - f. One recipient's resource worksheet was not fully documented. Paid claims for this recipient are \$191.
 - g. The recipient, classified as a Qualified Medicare Beneficiary (QMB), had resources that were not included in the eligibility

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calculation. QMB premiums paid for this individual total \$532 for the fiscal year 1996.

- h. A math error was made in computing one recipient's countable income. This specific error did not affect the client's eligibility. Paid claims total \$2,018.
2. We conducted an audit of 40 eligibility reviews conducted by the department's MQC section. MQC reviews are based on a recipient's eligibility for a given month. Our audit disclosed the following:
 - a. One case review correctly identified a recipient's eligibility for long term care benefits and as a qualified medicare beneficiary (QMB) for the month of review. However, at the time the review was completed, the recipient was not eligible for the QMB benefit. MQC and the eligibility determinations staff did not note this from the applicant's file. Premiums paid for the recipient during the period of ineligibility total \$542.
 - b. The annual redetermination process was begun nine months late and the recipient's case remained open one month after the required termination date. However, no claims were paid during the month of ineligibility.
3. The MQC staff reexamined 20 of the 85 recipient case files that we reviewed during our audit. The staff noted additional errors in 15 of the 20 case files (75 percent). The errors included a failure to follow policies and to use standardized forms, as prescribed in the MEM and the department's procedures.

Failure to establish eligibility in accordance with federal and state laws and regulations results in potential overpayments to providers for Medicaid recipients and a potential liability to HCFA for repayment of the federal share of overpayments. Failure to comply with federal and state laws and regulations and department policies and procedures may result in disallowances. HCFA may require the state to reevaluate its corrective action process and submit a plan of action on an annual basis for approval.

DHH should review the eligibility determinations process and the training process/program for EDEs. The department may consider a review of case files for the types of errors noted to ensure that if they have occurred, recipient eligibility has not been affected, which would result in a liability for overpayments to providers or in

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potential disallowances. In a letter dated October 22, 1996, Mr. Thomas D. Collins, Director of the Bureau of Health Services Financing, concurred that the errors in eligibility determination had occurred and outlined a plan of corrective action addressing the deficiencies noted. Mr. Collins stated that while it is correct there was an error in the QMB's eligibility status, he does not agree that an error of \$542 occurred because the adjustment can and will be done to correct the technical error in the payment. However, Mr. Collins stated that the department would alert MQC reviewers and ask that special attention be given to this area.

Additional Comments: Although the \$542 overpayment can be recouped, had we not discovered the error during our review, it may have remained undetected and no recovery made. We agree that Mr. Collins should take the remedial action he proposed so that MQC reviewers will be alert to changes that could affect a recipient's eligibility even though these changes occur in months other than the one under review.

Public Hearings

DHH did not hold public hearings to solicit public input on the state plan for the Block Grants for the Prevention and Treatment of Substance Abuse (CFDA 93.959) for the program years 1994, 1995, and 1996. The United States Code (42 USC 300x-51) requires the department to make the state plan public in such a manner as to facilitate comment from any person during the development of the plan and after the submission of the plan.

DHH failed to hold the required public hearings because the Office of Alcohol and Drug Abuse had no controls in place to ensure that the hearings were held. Failure to comply with federal regulations could result in a loss of federal funding.

DHH should develop and implement adequate controls to ensure that the required public hearings are held. This should begin with immediate preparations for public hearings on the 1997 state plan. In a letter dated June 28, 1996, Mr. Alton E. Hadley, Assistant Secretary of the Office of Alcohol and Drug Abuse, concurred with the finding and recommendation. Instructions will be given to all regional managers to hold hearings before submission of the 1996-97 block grant and the Deputy Assistant Secretary of the Office of Alcohol and Drug Abuse will monitor compliance with these instructions.

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Drug-Free Workplace

For the second consecutive year, DHH could not provide documentation that all employees who are engaged in the performance of federal grants were given a copy of the department's drug-free work policy. The codification of the Drug-Free Workplace Act of 1988, 41 USC 701 et seq., requires grantees of federal funds to publish a policy statement notifying employees that unlawful manufacture, distribution, dispensing, possession, or use of a controlled substance is prohibited in the grantee's workplace and specifying the actions that will be taken against employees for violations of these prohibitions. Section 41 USC 702(C) of the codification requires the grantee to give a copy of this statement to each employee engaged in the performance of a federal grant. To comply with the requirements relating to the Drug-Free Workplace Act, DHH established the required drug-free workplace policy (Policy #0016-89), which requires employees to sign a form certifying that they have received a copy of the policy and understand it. This form is to be maintained in the employee's personnel file.

During our test of payroll, we found that one out of 24 employees, although paid from federal funds, did not have this signed certification in his personnel file. This condition occurred because personnel files are maintained at various locations throughout the state and the department has no procedures in place to ensure compliance with department policy. Failure to obtain signed certifications from every employee increases the risk of noncompliance with provisions of the Drug-Free Workplace Act and could result in federal sanctions.

The department should ensure compliance with the Drug-Free Workplace Act by developing procedures to enforce internal Policy #0016-89. In a memorandum dated September 4, 1996, Ms. Mary Anne Manley, Human Resource Director, indicated that the one instance of noncompliance was an isolated incident that occurred because a newly hired human resource employee had not received proper instruction regarding the need for obtaining this certification. The situation has been corrected and the department does not anticipate further instances of noncompliance with this policy.

The recommendations in this report represent, in our judgment, those most likely to bring about beneficial improvements to the operations of the department. The varying nature of the recommendations, their implementation costs, and their potential impact on operations of the department should be considered in reaching decisions on courses of action. The findings relating to the department's compliance with applicable laws and regulations should be addressed immediately by management.

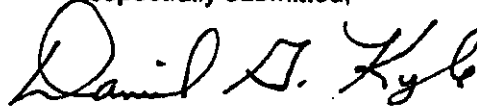
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By provisions of state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in cursive script that reads "Daniel G. Kyle". The signature is written in black ink and is positioned above the printed name and title.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

JES:MWB:dl

[DHH]