

Summary of Reports Issued and
Recommended Committee Action

July 1, 2009 to November 30, 2009

Presentation to Joint Audit Committee

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December 8, 2009

Reports Issued July 1, 2009 to November 30, 2009

Summary

Total Reports Issued	39
Reports Recommended for Committee Action	7

<u>Agency</u>	<u>Recommended Committee Action</u>
1. Department of Human Resources – Local Department Operations	Letter of Concern
2. Maryland State Department of Education	Hearing ⁽¹⁾
3. Managing for Results – Performance Measures – Education – Maryland State Department of Education (Performance)	Hearing
4. Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans – Investment Contract Pool (Special)	Hearing ⁽²⁾
5. Maryland Automobile Insurance Fund	Hearing
6. Department of Health and Mental Hygiene – Developmental Disabilities Administration	Hearing
7. Department of Health and Mental Hygiene – Processing of Certain Medicaid Claims (Performance)	Hearing
 (1) Presented to Joint Audit Committee in September 2009 (2) Included in Fraud Hotline Update	

<u>Summary of Recommended Committee Action</u>	
Hearings (Present to Joint Audit Committee)	6
Letters of Concern	<u>1</u>
Total	<u><u>7</u></u>

<p style="text-align: center;">Reports Issued July 1, 2009 to November 30, 2009</p>
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<u>Agency</u>	<u>Report Date</u>	<u>Number of Pages</u>
Calvert County Public Schools (Financial Management Practices Performance Audit)	7/1/09	70
Caroline County – Office of the Register of Wills	7/1/09	5
Department of Health and Mental Hygiene – Alcohol and Drug Abuse Administration	7/15/09	7
Maryland Legal Services Corporation	7/30/09	11
Caroline County – Office of the Clerk of Circuit Court	8/3/09	7
Department of Human Resources – Local Department Operations	8/4/09	28
University System of Maryland – University of Maryland Baltimore County	8/6/09	18
Department of Transportation – State Highway Administration	8/6/09	20
Comptroller of the Treasury – Office of the Comptroller – Bureau of Revenue Estimates	8/11/09	6
Queen Anne's County – Office of the Register of Wills	8/17/09	4
Maryland State Department of Education	8/27/09	34
Review of Local Government Audit Reports – Fiscal Year Ending June 30, 2008 (Special)	9/2/09	14
Cecil County Public Schools (Financial Management Practices Performance Audit)	9/10/09	58
Comptroller of the Treasury – General Accounting Division	9/14/09	7
Baltimore City – Office of the Register of Wills	9/18/09	6
Historic St. Mary's City Commission	9/18/09	4
Department of Transportation – Secretary's Office	9/21/09	12
Queen Anne's County – Office of the Clerk of Circuit Court	9/23/09	5
Calvert County – Office of the Register of Wills	9/29/09	4
Department of Health and Mental Hygiene – Laboratories Administration	9/30/09	10
Managing for Results – Performance Measures – Education – Maryland State Department of Education (Performance)	10/2/09	17
University System of Maryland – University of Maryland, College Park – Office of Information Technology	10/6/09	11
Department of Disabilities	10/8/09	6
Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans – Investment Contract Pool (Special)	10/9/09	32
Calvert County – Office of the Clerk of Circuit Court	10/9/09	5
Maryland Environmental Service	10/14/09	7
Montgomery County – Office of the Clerk of Circuit Court	10/15/09	6
Montgomery County – Office of the Register of Wills	10/20/09	6
Howard County Public Schools (Financial Management Practices Performance Audit)	10/23/09	68
Maryland Automobile Insurance Fund	11/4/09	13
Worcester County – Office of the Register of Wills	11/5/09	4
Financial Management Information System – Centralized Operations	11/5/09	6

Reports Issued
July 1, 2009 to November 30, 2009
(continued)

<u>Agency</u>	<u>Report Date</u>	<u>Number of Pages</u>
Department of Information Technology	11/10/09	12
Charles County – Office of the Register of Wills	11/10/09	6
Office of the Public Defender (Performance)	11/19/09	53
Department of Health and Mental Hygiene – Developmental Disabilities Administration	11/20/09	28
Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans	11/23/09	8
Department of Health and Mental Hygiene – Processing of Certain Medicaid Claims (Performance)	11/23/09	42
Review of Community College Audit Reports – Fiscal Year Ending June 30, 2008 (Special)	11/24/09	6

Total Number of Reports Issued: 39

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2009 to November 30, 2009

1) Department of Human Resources (DHR) – Local Department Operations (LDO) (8/4/09 – 28 pages – 13 findings)

LDO is a separate budgetary unit consisting of the funds appropriated for the operating costs of the State's 24 local departments of social services (LDSS), as well as for the various assistance activities (such as food stamps and temporary cash assistance) they administer.

- Audits of the LDSSs conducted by DHR's Office of the Inspector General (OIG) were not performed in accordance with auditing standards, and did not fully address significant risks. In addition, these audits were not performed every two years, as required by State law. Due to audit quality concerns, OLA conducted audits of selected activities at three large LDSSs.
- At one of the LDSSs audited, adequate controls had not been established to ensure that foster care and adoption payments were proper. During fiscal year 2008, the LDSS's foster care and adoption expenditures totaled approximately \$188 million. Also, there were no procedures to ensure that Federal Title IV-E initial eligibility determinations had been performed for all children placed into foster care, and eligibility redeterminations were not performed timely.
- Medical Assistance (Medicaid) eligibility determinations made at one LDSS for long term care recipients were not always proper and documented. In addition, an available online tool was not used to identify undisclosed assets.
- Controls over bank account disbursements and collections were deficient at certain LDSSs. For example, at one local department, the employee who prepared the bank reconciliations had access to blank checks and to the check signing machine.
- Control deficiencies were also noted over purchases and disbursements. For example, numerous employees at two LDSSs could process disbursements on the State's accounting system without independent approvals. In addition, payments made by one LDSS totaling \$1.3 million to one vendor were not subject to control agency approvals and lacked documentation to substantiate the propriety of the amounts billed.

Recommended Committee Action – Letter of Concern

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2009 to November 30, 2009

2) Maryland State Department of Education (MSDE) (8/27/09 – 34 pages – 16 findings)

- Certain aspects of MSDE's loaned educator program appeared to be in conflict with State law and regulations. During FY 2009, MSDE employed 66 loaned educators from 17 local school systems at a cost of \$8.5 million. The loaned educators filled positions in one of six different categories, including 15 educators who served as professional assistants, in executive management and director positions, for periods ranging up to 14 years. The extent and total costs of the program were not specifically disclosed to the General Assembly's budget committees.
- Inspections of child care facilities were not conducted as required. Timely monitoring of the local department of social services was not performed to ensure the propriety of eligibility determinations and related payments of the State's Child Care Subsidy Program, which totaled \$99 million during fiscal year 2008. Also, procedures had not been established to verify certain child care provider billing information.
- MSDE recorded unsubstantiated federal fund revenues totaling approximately \$13.3 million at June 30, 2008 related to expenditures incurred in fiscal years 2002 and 2003.
- Adequate monitoring procedures were not employed as related to a prior contract to manage State family support centers. Furthermore, a new \$15.9 million management agreement included limited oversight requirements.
- Certain aspects of the Maryland Business Enterprise Program for the Blind did not appear to be in accordance with State laws and regulations. Also, there was no assurance that blind individuals benefited as intended.
- Security and controls over key MSDE information technology (IT) operations need enhancement. MSDE did not have a comprehensive IT disaster recovery plan and proper monitoring of security related events was not performed.
- Procurement and related payment practices were not always consistent with State regulations.

Recommended Committee Action – Hearing (Presented at the Committee's September 2009 Meeting)

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2009 to November 30, 2009

3) Managing for Results – Performance Measures – Education – Maryland State Department of Education (Performance) (10/2/09 – 17 pages)

We conducted a performance audit to determine the accuracy of 6 of the 12 measures contained within the Education portion of the Managing for Results (MFR) - State Comprehensive Plan as reported in the Maryland fiscal year 2009 operating budget request. The Maryland State Department of Education (MSDE) was responsible for reporting these results. We also determined whether adequate control systems were in place for collecting, summarizing, and reporting the performance measure data. The audit concluded the following:

- For the 6 measures tested, 2 were Certified, 2 were considered Certified with Qualification, and 2 were designated as Factors Prevented Certification.
- For the 2 measures that could not be certified, MSDE was not adequately ensuring that supporting data used to calculate the measures were complete and accurate.
- Although MSDE had certain quality control processes in place, the processes should be strengthened by establishing procedures to ensure that all relevant data are included in the measure calculation and that the data, including data from third parties, are reasonably accurate.

As requested by the chairmen of the legislative budget committees, OLA is in the process of systematically auditing the results of the 62 MFR measures contained in the State Comprehensive Plan, which was produced by the Department of Budget and Management. This audit is the second to be conducted; the first audit consisted of the 13 measures of the Public Safety and Safer Neighborhoods portion of the Plan.

Recommended Committee Action – Hearing

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2009 to November 30, 2009

4) Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plans – Investment Contract Pool (Special) (10/9/09 – 32 pages – 10 findings)

We conducted a review of an allegation received through our fraud, waste, and abuse hotline regarding the possible lack of disclosure of losses incurred in the Maryland Investment Contract Pool (ICP), which is one of several investment options of the Maryland Supplemental Retirement Plan (MSRP). The ICP's objective is to preserve principal and provide a stable, competitive return for participants. The reported book value of the ICP portfolio was approximately \$729 million as of December 31, 2008.

- MSRP did not adequately disclose unrealized ICP investment losses in financial publications made available to existing or prospective plan participants, nor were the unrealized losses disclosed in MSRP's 2007 audited financial statements. As of December 31, 2008, these unrealized losses totaled approximately \$48 million.
- MSRP did not independently verify the reported market value of ICP investments, and did not independently verify the accuracy of the interest rates calculated by the investment manager that were used to credit earnings to participant accounts.
- MSRP management personnel were consistently unable to satisfactorily address fundamental questions, including a clear and accurate explanation of the wrapper agreements. These agreements are obtained to provide protection of portfolio principal under certain circumstances. MSRP could not provide us with relevant documents relating to the ICP.
- MSRP management and the MSRP Board did not adequately document their monitoring of the performance of the investment manager and the sub-managers. Performance reports prepared by MSRP's investment consultant indicated the ICP was outperformed by comparable investment plans for the 3-year and 5-year periods ending December 31, 2008.

Recommended Committee Action – Hearing (with the OLA Fraud Hotline presentation)

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2009 to November 30, 2009

5) Maryland Automobile Insurance Fund (MAIF) (11/4/09 – 13 pages – 5 findings)

- In June and December of 2008, MAIF's Board of Trustees approved changes to certain critical requirements of MAIF's calendar year 2008 employee bonus program. We question the timing and appropriateness of these changes, without which the majority of that year's approximately \$1.4 million in bonuses would not have been paid.
- MAIF made certain expenditures for consulting, marketing, and lobbying services, as well as certain outreach costs, that may not be consistent with MAIF's primary mission as a State-created insurer of last resort. Due to their nature, we believe certain expenditures should be subject to disclosure to the legislature's budget committees to ensure that such expenditures are consistent with the legislature's intended mission for MAIF.
- Certain procurement transactions were not consistent with MAIF's established procurement procedures and documentation of expenditures could be improved.
- Payments made to private attorneys were not always reported in accordance with regulations of the Internal Revenue Service.

Recommended Committee Action – Hearing

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2009 to November 30, 2009

6) Department of Health and Mental Hygiene – Developmental Disabilities Administration (DDA) (11/20/09 – 28 pages – 14 findings)

- DDA lost the opportunity to obtain federal funds totaling approximately \$3 million because claims identified during our preceding audit were not corrected and resubmitted within required federal timeframes.
- DDA did not adequately investigate federal fund reimbursement claims that were rejected due to Medicaid Management Information System (MMIS) edits, and federal funds totaling \$433,000 were not recovered due to a MMIS edit that was not applicable to DDA claims.
- DDA did not have adequate processes to ensure that certain provider claims for prepaid services were submitted to MMIS for processing or that federal fund reimbursement requests were timely. As a result, federal funds and interest income totaling \$139,500 and \$421,000, respectively, were not obtained or had been lost.
- Adequate documentation was not maintained to support waiting list information reported to the General Assembly's budget committees in January 2009, and periodic reviews of individuals on the waiting list were not performed during most of our audit period.
- DDA's report to the General Assembly regarding client prioritization did not adequately disclose that clients completing the Transitioning Youth Program were receiving full DDA services, and bypassing individuals on the waiting list, regardless of those individuals' severity of need or waiting time.
- DDA did not monitor client resource coordinators and, as a result, 72 clients lost Federal Medicaid eligibility.
- Effective procedures were not in place to detect providers that billed for services for deceased individuals. Our testing disclosed that DDA made payments to 7 providers totaling \$235,000 for 8 individuals who were deceased when services were reportedly provided.
- DDA had not taken timely action to recover unspent Wage Disparity Initiative funds totaling \$3.6 million from providers that did not use the funds to increase the compensation for providers' direct service workers, as intended.
- DDA had not established proper security access controls over critical data maintained on its information system.

Recommended Committee Action – Hearing

Reports Recommended for Committee Action
Significant Audit Findings
July 1, 2009 to November 30, 2009

7) Department of Health and Mental Hygiene (DHMH) – Processing of Certain Medicaid Claims (Performance) (11/23/09 – 42 pages – 16 Findings)

We conducted a performance audit of certain aspects of DHMH's Medicaid claims processing and federal reimbursement procedures, for which related claims payments totaled \$2.68 billion during fiscal year 2009.

- There were valid reasons for not using most MMIS edits that were disabled, but 9 of the 51 edits we tested should not have been disabled. These 9 edits applied to claims totaling in excess of \$98 million during the nine-month period ended March 31, 2008. Had these edits been used, the claims would have been suspended and subject to further review before being paid.
- Controls over changes to edit settings were inadequate. Four employees could deactivate edits without any approvals. A record of setting changes and written justifications as to why edit settings were changed were not maintained.
- Detailed written descriptions of the various automated edits were often brief and vague.
- Certain claims were improperly processed for payment due to a temporary change in edit settings. MCPA determined that claims totaling \$1.4 million were paid in error.
- Excessive MMIS system access capabilities were inadvertently granted to allow 532 users to pay claims that were suspended due to edits.
- Although certain claim processing functions had backlogs, no formal studies of staffing requirements had been performed to determine if its existing resources should be reallocated. MCPA does not have a training program for employees performing critical claims processing functions.
- DHMH's post payment review process was not formally structured or adequately documented. There were no specific requirements as to the type and frequency of computer analyses of claims data to identify potentially improper paid claims.
- The vendor MCPA hired to audit in-state paid hospital claims did not complete audits timely.
- There was no systematic process among DDA, MHA, and MCPA to determine the causes for rejected federal reimbursement claims so that procedures and processes could be modified to minimize future rejected claims. Also, rejected claims were not investigated and resolved promptly.

Recommended Committee Action – Hearing
