

Audit Report

**Department of Health and Mental Hygiene
Developmental Disabilities Administration**

November 2016



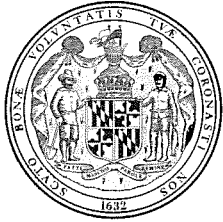
OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

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November 18, 2016

Senator Guy J. Guzzone, Co-Chair, Joint Audit Committee
Delegate C. William Frick, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Department of Health and Mental Hygiene – Developmental Disabilities Administration (DDA) for the period beginning February 29, 2012 and ending April 12, 2015. DDA plans, develops policies and regulations, and funds a Statewide system of services for individuals with developmental disabilities (referred to as consumers) and their families.

Our audit disclosed that DDA directed providers to collect certain copayments from consumers, referred to as contribution to care (CTC), for services that should have been paid for with State and federal funds. In fiscal year 2014, DDA determined that it was incorrectly directing providers to collect CTC from virtually all Medicaid-eligible consumers residing in residential habitation facilities. Based on DDA's estimates, the CTC incorrectly collected from consumers prior to changing its practice could have approximated \$4.2 million annually. DDA management advised us these improper collections had been occurring for many years. According to its legal counsel, DDA is not legally obligated to return the amounts improperly paid by consumers. Also, DDA believes that the administrative and financial costs to calculate the amounts improperly collected outweigh the potential benefits to the affected consumers. DDA's decision not to pursue a remedy for this situation has not been communicated to the General Assembly for its consideration.

DDA did not adequately monitor the contractual resource/service coordinators who were responsible for planning, coordinating, and monitoring all services delivered to approximately 25,000 DDA consumers. Specifically, DDA did not determine whether the coordinators were ensuring that the consumers were receiving required medical, habilitative, or rehabilitative services from providers, as stipulated in their individual plans, and that Medicaid eligibility reassessments

were conducted timely. DDA also did not adequately review the propriety of resource/service coordinators' invoices prior to payment. Fiscal year 2015 expenditures totaled \$39 million to the 18 contractors providing resource/service coordinators.

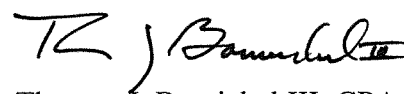
DDA also did not negotiate the hourly rates for vendor employees hired beginning in 2013 under two contracts with an overall cost totaling \$8.1 million. The vendor employees were hired to address systemic deficiencies with DDA's financial operating procedures and to provide financial restructuring advisory support. The contract rates for four vendor employees ranged from \$195 to \$416 per hour. Furthermore, DDA lacked an effective means to monitor payments and control costs because the contracts did not contain the anticipated effort (hours) to complete the related deliverables. Moreover, the full contract values were paid even though some deliverables were not received; DDA did not attempt to modify the contract to reduce its payments for those deliverables.

Federal fund reimbursement requests were not always submitted timely, resulting in lost interest income to the State of approximately \$210,000. Additionally, DDA did not conduct audits of Community Supported Living Arrangement providers to identify and recover overpayments. DDA also did not verify critical adjustments that were processed in the Provider Consumer Information System, resulting in errors, such as overpayments to providers, going undetected. Finally, DDA inappropriately stored certain sensitive personally identifiable information without adequate safeguards.

In our preceding audit report, dated October 2, 2013, we reported that DDA's accountability and compliance level was unsatisfactory in accordance with the rating system that we established in conformity with State law. Based on the results of our current audit, we have concluded that DDA has made some improvement in its fiscal and compliance operations and, accordingly, DDA's accountability and compliance level is no longer unsatisfactory.

The Department's response to this audit, on behalf of DDA, is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DDA.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'TK Barnickel III', is written over the printed name.

Thomas J. Barnickel III, CPA
Legislative Auditor

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Background Information

Agency Responsibilities

The Developmental Disabilities Administration (DDA) is an agency within the Department of Health and Mental Hygiene (DHMH). The mission of DDA is to provide leadership to assure the full participation of individuals with developmental disabilities and their families in all aspects of community life, and to promote their access to quality support and services necessary to foster personal growth, independence, and productivity. DDA also administers the Court Involved Service Delivery System which is responsible for serving individuals committed to DHMH by the courts.

For persons with developmental disabilities and their families, DDA plans, develops policies and regulations, and funds a Statewide system of services. DDA coordinates its work with other government, voluntary and private health, education, and welfare agencies. Through a combination of private licensed Medicaid providers, not-for-profit licensed Medicaid providers, local health departments, and Fiscal Management Agencies, DDA funds services to persons with developmental disabilities. These services include an array of options from residential to employment services.

Fiscal Year 2015 Activity	
Expenditures (in millions)	
General Fund	\$ 523
Federal Fund	408
Special Fund	4
Total	\$ 935
Total Individuals Served	25,315
Source: DDA Records	

DDA consists of a headquarters unit, four regional offices which administer community-based services, two forensic residential centers under the Court Involved Service Delivery System (the System), and two residential centers – the Holly Center and the Potomac Center. Separate audits are conducted of the Holly Center and the Potomac Center. This audit included the headquarters unit, the four regional offices, and the System.

Developmentally Disabled Services Delivery Process

Consumer Eligibility and Provider Services

To obtain DDA services, a consumer submits an application to a DDA regional office and, upon DDA's approval, the consumer is assigned a category based on priority; the consumer is then generally placed on a waiting list. Once a person has been found eligible for DDA services and placed on a waiting list, he or she

does not apply for full DDA services until funding has been identified through DDA's defined placement categories. If the consumer is eligible for assistance, federal funding is available to cover a portion of the service costs. The consumer meets with a DDA contractor, referred to as a resource/service coordinator, who is responsible for planning, coordinating, and monitoring all services delivered to the consumer. As part of this responsibility, the resource/service coordinator assists with developing an annual individual plan that describes the particular care, including specific services, that the consumer is to receive from a provider. When funding becomes available, the resource/service coordinator notifies the consumer and facilitates finding an appropriate service provider.

Provider Payments

DDA has a prospective payment system whereby providers are paid prior to services being rendered based on estimates of the services to be provided. The majority of DDA's expenditures are processed through DDA's Provider Consumer Information System II. At year-end, the providers submit records of actual services provided, from which a reconciliation to payments previously made is performed by DHMH's Division of Cost Accounting and Reimbursements. In addition, residential consumers are responsible for paying the provider for a portion of their services which is referred to as "contribution to care." According to DHMH's records, DDA provider and resource/service coordinator payments for fiscal year 2015 totaled \$876 million and \$39 million, respectively.

Federal Liability

DDA has a federal liability of approximately \$34.1 million for which State general funds may be needed. In June 2015, DDA was notified by the federal Department of Health and Human Services – Office of Inspector General (DHHS OIG) that DDA did not implement its Community Pathways waiver program in accordance with federal requirements. Specifically, between July 1, 2010 and June 30, 2013, DDA claimed and received federal reimbursement for \$34.1 million in provider payments for add-on services for consumers who did not meet the waiver program's level-of-need requirement. DDA did not consider the consumer's level of need when approving the add-on services.

DHHS OIG recommended that DDA refund the overbilled amount to the federal government. DDA did not concur with the recommendation and, in September 2015, DHMH, on behalf of DDA, issued a letter to the Centers for Medicare and Medicaid Services (CMS) contesting the findings and recommendations. As of September 30, 2016, CMS had not responded to DHMH.

Although DDA is disputing the disallowed claims, during the fiscal year 2016 closeout process, DHMH reported the federal liability to the Comptroller of Maryland - General Accounting Division. As of September 2016, DDA had not identified funding sources for the liability.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the 13 findings contained in our preceding audit report dated October 2, 2013. We determined that DDA satisfactorily addressed 10 of these findings. The remaining 3 findings are repeated in this report.

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

Findings and Recommendations

Contribution to Care

Finding 1

Prior to fiscal year 2015, the Developmental Disabilities Administration (DDA) incorrectly directed providers to collect an estimated \$4.2 million annually from certain consumers for their cost of care. DDA believes that its administrative and financial costs to remedy this situation outweigh the potential benefits to the affected consumers.

Analysis

Prior to fiscal year 2015, DDA incorrectly directed providers to collect certain copayments from consumers, referred to as contribution to care (CTC), for services that should have been paid for with State and federal funds. CTC is the monthly amount that certain consumers in residential care are required to pay providers, based on the consumer's ability to pay, and it reduces DDA's payments to providers. Based on DDA's estimates, the improper CTC collected from consumers could approximate \$4.2 million annually. DDA management advised us these improper collections had been occurring for many years and that it did not recall a time when this was not the practice.

According to legal counsel for the Department of Health and Mental Hygiene, DDA has no legal obligation to return money to consumers who were incorrectly charged for their cost of care. DDA advised us that, while not impossible to accomplish, its administrative and financial costs to calculate the amounts improperly collected outweigh the potential benefits to the affected consumers.

In fiscal year 2014, DDA determined that it was incorrectly directing providers to collect CTC from virtually all Medicaid-eligible consumers residing in residential habitation facilities, rather than just from "Optionally Categorically Needy" consumers.¹ Specifically, CTC was collected from individuals who resided in a residential habitation facility that were eligible for Medicaid because they received SSI, referred to as "Categorically Eligible." Categorically Eligible consumers have a lower income level than the Optionally Categorically Needy consumers.

¹ According to federal and State regulations, DDA is authorized to collect CTC from consumers who are only eligible for Medicaid because they reside in an institutional setting. These consumers are referred to as "Optionally Categorically Needy." These regulations do not allow CTC to be collected from any other Medicaid-eligible consumers such as consumers who receive Supplemental Security Income (SSI) from the Social Security Administration. These consumers are referred to as, "Categorically Eligible."

DDA directed providers to stop collecting the CTC from these consumers, effective July 2014. According to DDA's recently completed analysis, during calendar year 2013 DDA improperly directed providers to collect approximately \$4.2 million from 2,536 categorically eligible waiver participants. We determined that DDA's analysis methodology and estimates were reasonable.

While acknowledging the task would not be impossible, DDA does not believe that it would be an appropriate effort to pursue a remedy to this situation for the following reasons.

- The lack of sufficient data regarding individual CTC collections
- The significant effort involved in reviewing calculations and ascertaining what was actually collected from the affected consumers
- The historical issue of providers having insufficient administrative resources
- Legal constraints
- The potentially negative impact on the individuals and their services

For example, DDA advised that, while it maintains records of the CTC that providers were supposed to collect, it does not know the amounts actually collected each month by the providers for each of the affected consumers. Based on its experience with provider recordkeeping, DDA asserts that obtaining this information from some providers may not be possible. We question whether it is necessary to determine the amounts actually collected based on provider records. Considering the longevity of the problem, the impracticality (if not impossibility) of determining the full extent of the overpayments, and the State's culpability, we believe that a reasonable approach would be to assume that all amounts required to be paid by the affected consumers, as recorded in DDA's records over a given period, were actually collected and are therefore subject to being returned.

DDA also stated that legal restrictions under federal regulations would make it significantly difficult to return funds to consumers. For example, the return of funds could make some consumers ineligible for Medicaid because financial limitations could be exceeded. DDA believes the simplest solution would be to ask for a waiver from the federal government, a process it claims could take a year or more, without knowing the ultimate outcome. Nevertheless, we believe that the State has an obligation to pursue this matter with the federal government.

We were advised that DDA's decision has not been communicated to the General Assembly. Given DDA's position, we believe that this matter should be presented to the General Assembly for its consideration.

Recommendation 1

We recommend that DDA

- a. determine the extent of the improperly collected CTC, as practical; and**
- b. present this issue and basis for its decision to the General Assembly for its consideration.**

Consumers' Services

Background

As of June 30, 2015, DDA had contracts with 18 contractors to provide resource/service coordinators for which fiscal year 2015 expenditures totaled approximately \$39 million. The resource/service coordinators are responsible for planning, coordinating, and monitoring all services delivered to 25,315 consumers with service expenditures totaling approximately \$876 million in fiscal year 2015. Specifically, the resource/service coordinators are responsible for assisting DDA and the consumers in the following areas:

- **Individual Service Plan (ISP)** - The ISP describes the particular care that the consumer is to receive from a provider as required by State regulations. The resource/service coordinators develop each consumer's ISP and monitor the related implementation of the plan by the providers.
- **Medicaid Eligibility** - Consumers must submit an application to receive a waiver from the federal government that allows Medicaid to pay for services delivered in the community. The resource/service coordinators assist the consumers with the waiver application (completing the forms and gathering the required supporting documents) and, once enrolled, monitor and follow up on these consumers and assist with annual Medicaid eligibility reassessments (getting financial information from consumers to enable the reassessments).

The resource/service coordinators document the results of their monitoring efforts, including hours worked, in DDA's Provider Consumer Information System II (PCIS2) and report the hours worked to DDA on their monthly invoices. DDA's payments to the resource/service coordinators are based on the hours reported by the resource/service coordinators and the rates established in State regulations.

Finding 2

DDA did not adequately monitor the resource/service coordinators' efforts to determine whether they were ensuring that consumers received the required services from providers and that Medicaid eligibility reassessments were conducted timely.

Analysis

DDA did not adequately monitor the efforts of the resource/service coordinators to assess whether the coordinators were fulfilling their contractual responsibilities. The failure of the coordinators to adequately perform their duties adversely impacts service delivery to consumers and the recovery of federal funds. Similar conditions were noted in our two preceding audit reports.

Consumer Service Delivery

DDA did not adequately monitor the performance of the resource/service coordinators to ensure consumers received the required medical, habilitative, or rehabilitative services from providers, as stipulated in their ISPs. The resource/service coordinators were required to submit quarterly reports which summarize their efforts (such as the number of consumers they assisted). DDA did not obtain or use these reports and did not review the resource/service coordinator case notes in PCIS2 to determine whether the required services were provided.

Although DDA employees performed site visits at provider facilities to determine whether the consumers were provided the required services, the visits were not directed at the efforts of the resource/service coordinators to ensure the delivery of all required services, and DDA did not follow up with the providers to ensure any noted problems (such as medication that was not properly provided) were corrected. According to its records, DDA performed site visits related to 912 of the approximately 11,266 consumers in the Central Region in fiscal year 2015. DDA did not maintain summary records of these visits, and did not track the issues noted, even though we were advised that it was a common occurrence for issues to be noted. In addition, DDA did not determine whether the resource/service coordinators had identified similar issues and taken action.

Our tests of the monitoring performed by certain resource/service coordinators disclosed that documentation was lacking to substantiate the effective monitoring of services being provided to consumers under their supervision. Also, ISPs were not always current or prepared in accordance with State regulations.

We selected one service included in the ISPs for 14 consumers monitored by two resource/service coordinators during fiscal years 2013 through 2015 and reviewed

their case notes for a year to assess whether the services were monitored. Our review disclosed that, for 9 consumers, the case notes did not contain evidence that the resource/service coordinators had verified the delivery of the required services. For example, the ISPs for 4 consumers stated that the consumers were supposed to receive certain services, such as Supported Employment services (consumers are provided support necessary to work in competitive employment in the community); however, the case notes did not reflect that these services were delivered during the period reviewed. In addition, for 10 of the 14 consumers, either their prior year ISP had not been updated for the current year or the ISP did not contain certain information as required by State regulations. For example, we noted certain ISPs did not state the required staffing ratios for the facilities in which the consumers resided or did not identify the consumer's goals.

Medicaid Eligibility Reassessments

DDA did not ensure that the resource/service coordinators assisted with the annual eligibility reassessments. DDA sent monthly automated reports to the resource/service coordinators informing them of the consumers that were about to lose or had lost Medicaid eligibility, but DDA did not ensure the coordinators followed up on these consumers to obtain the financial information needed for the reassessments. According to DDA records as of November 2015, 338 consumers had lost Medicaid eligibility because the reassessments had not been performed.

Our test of 20 of these consumers disclosed that no action was taken by DDA for 17 consumers to ensure that the resource/service coordinators had attempted to obtain the financial information needed for the reassessments, which were overdue for periods ranging from 9 to 19 months. Since these consumers were not Medicaid eligible during the period after Medicaid eligibility lapsed, services provided to the consumers costing \$493,000 were entirely State funded. The future collectability of the federal reimbursement for these services will depend on several factors, such as the consumers' eligibility based on their current income.

Recommendation 2

We recommend that DDA

- a. verify, at least on a test basis, that the resource/service coordinators are effectively monitoring to ensure services are provided as required in the ISPs and that adequate documentation is maintained (repeat);**
- b. follow up with providers to ensure corrective actions were taken for issues noted during site visits;**
- c. ensure that ISPs are completed in accordance with State regulations;**
- d. ensure that annual eligibility reassessments of consumers are performed, as required by federal regulations (repeat); and**

- e. **determine if eligibility can be restored to the consumers who lost Medicaid eligibility because reassessments were not timely performed, including the aforementioned 17 consumers, and if federal reimbursement can be obtained for services provided (repeat).**

Finding 3

DDA did not compare hours billed by the resource/service coordinators with hours worked as recorded in its PCIS2 to ensure payments were proper.

Analysis

DDA did not adequately review the propriety of resource/service coordinators' invoices prior to payment. On a monthly basis, the resource/service coordinators billed DDA for the number of hours spent providing consumers' services, based on established rates. However, DDA did not compare the hours billed with the information within PCIS2 where the resource/service coordinators recorded their hours worked and which was pre-populated with the associated rates. DDA management advised us that it only referred to the detailed support on PCIS2 to check for certain outliers, such as when invoices had excessive hours being billed for a particular day.

Our review of 15 invoices received from two resource/service coordinator contractors in fiscal years 2014 and 2015 totaling \$18.7 million disclosed that 12 invoices totaling \$17.5 million were approved and paid even though hours worked as recorded in PCIS2 disclosed differences—resulting in both overpayments (\$275,000) and underpayments (\$263,000)—aggregating approximately \$538,000.

Recommendation 3

We recommend that DDA compare the hours billed by the resource/service coordinators with the hours worked as recorded in PCIS2 to ensure payments are only made for hours worked, and investigate any differences identified, including those noted above.

Financial Restructuring Contracts

Background

During our audit period, DDA entered into two contracts with a vendor to assist in the financial restructuring of DDA operations. The first contract was procured as a single-source award (that is, only one vendor submitted a bid) and the second contract was procured as an emergency award (with no competing vendors).

These contracts operated concurrently and payments to the vendor under these two contracts totaled \$8.1 million, as detailed in the table on the following page.

Under the first contract, awarded in January 2013 for \$1.3 million, the vendor was to address systemic deficiencies with DDA's financial operating procedures. According to the technical proposal submitted by the vendor, five vendor employees were to be assigned to the contract. The initial contract covered the period from January through December 2013 with the option for two one-year extensions. DDA exercised both contract extensions and processed three contract modifications for a total contract cost of \$4 million. The first contract ended in February 2016.

The second contract for approximately \$1.1 million was awarded in June 2013 to the same vendor to provide financial restructuring advisory support, and to make recommendations about DDA's financial reporting structure and day-to-day functions. According to the technical proposal submitted by the vendor, seven vendor employees were to be assigned to the contract, including at least two employees that were also assigned to the first contract. The initial contract covered the period from June through December 2013 with the option for two six-month extensions. DDA exercised both contract extensions and processed a \$1 million contract modification for the vendor to provide services such as, certain training to DDA personnel for a total contract cost of \$4.1 million. The second contract ended in June 2015.

Financial Restructuring Contract Costs					
Financial Restructuring Contract #1			Financial Restructuring Contract #2		
Date	Description	Amount	Date	Description	Amount
1/2/2013	Original Contract (1/2013-12/2013)	\$ 1,289,750	6/6/2013	Original Contract (6/2013-12/2013)	\$ 1,059,781
5/23/2013	Modification 1	\$ -	12/7/2013	Contract Extension (12/2013-6/2014)	\$ 1,035,118
1/1/2014	Contract Extension (1/2014-12/2014)	\$ 574,000	6/7/2014	Contract Extension (6/2014-12/2014)	\$ 1,011,042
8/14/2014	Modification 2	\$ 706,405	12/7/2014	Modification (12/2014-6/2015)	\$ 1,011,042
1/1/2015	Contract Extension (1/2015-12/2015)	\$ 574,000	Total \$ 4,116,983		
1/1/2015	Modification 3	\$ 867,350			
12/21/2015	Contract Extension (1/2016-2/2016)	\$ -			
		Total \$ 4,011,505	Source: DDA Records		

Subsequent to our audit, DDA entered into a sole source contract with this vendor to provide some of the same services that were provided under the first contract. This new contract was for \$2.7 million and covered the period from March 1, 2016 to February 28, 2018, and was not subject to our review.

Finding 4

DDA did not negotiate the contract rates for either contract, and DDA procured the second contract as an emergency procurement even though certain services ultimately provided under the contract did not appear to be emergencies as defined by regulation.

Analysis

DDA did not negotiate the contract rates for either contract. In addition, DDA procured the second contract as an emergency procurement even though certain services provided did not appear to be emergencies as defined by regulation.

- DDA did not negotiate the contract rates proposed by the vendor for either contract. Our review of the contracts disclosed that the first contract provided for DDA to pay \$250 per hour for the services of a project manager, at an annual cost of \$485,000, and to pay \$195 per hour for the services of a financial analyst at an annual cost of \$378,300. The second contract provided for DDA to pay \$416 per hour for a programmatic leader, at an annual cost of \$665,496, and to pay \$347 per hour for a finance director, at an annual cost of \$648,860. Further, the contracts did not describe the duties associated with the positions and, therefore it was not possible to determine whether costs were appropriate. Consequently, there was a lack of assurance that the contract awards and the hourly rates were reasonable and provided the best value to the State.

State regulations provide that when only one responsive bid is received, the contract should be awarded under the regulations for a sole source award which require a negotiation of the proposed rates. DDA management advised us that it did not negotiate the vendor's pricing (including for the individuals sighted as examples above) because it did not have a basis for which to evaluate the proposals. We believe that further description of the duties required under the contract would have enhanced DDA's ability to determine the reasonableness of the related costs, such as through comparison with other State contracts or through other inquiries.

- DDA procured the second contract as an emergency procurement even though the actual services performed by the vendor did not appear to constitute an

emergency under State regulations. DDA's emergency justification stated that there was an "urgent need for the development of effective policies and procedures to ensure both timely delivery of services to individuals and program integrity," and a "related shift to fee-for-service targeted case management services," and that there were "longstanding challenges facing the agency."

However, DDA used the vendor to perform services such as ongoing reviews of DDA's budget and cost performance and various management processes. In addition, as discussed in Findings 5 and 6, the scope of the second contract was similar to the scope of the first contract, and DDA used this second contract for work outside the contract scope. According to State regulations, emergency procurements include services necessary to avoid or to mitigate serious damage to public health, safety, and welfare.

Recommendation 4

We recommend that DDA

- a. negotiate vendor proposed rates when only one responsive bid is received, and**
- b. ensure that emergency procurements are only used for emergency situations as defined by regulation.**

Finding 5

DDA lacked an effective means to monitor payments for contract deliverables, and similar deliverables were included in both contracts and in certain contract modifications.

Analysis

DDA lacked an effective means to ensure payments were commensurate with the completion of contract deliverables. The contracts contained numerous deliverables to be accomplished and various tasks to be performed. For example, one contract required the contractor to perform tasks, such as "reviewing and documenting budget monitoring processes" and "developing recommendations for improved business and financial processes." However, the contracts provided for payment based on the number of hours worked, but did not establish the vendor's anticipated effort to complete the related deliverables and perform the tasks. As a result, DDA had no effective means to control contract costs by limiting payments to the agreed upon hours for successfully completed deliverables and performed tasks.

Additionally, we noted similar deliverables in the two contracts and in certain contract modifications. For example, both contracts required the vendor to develop processes for rate-setting recommendations. DDA management could not explain why these services were included in the second contract when the services were already included in the scope of the first contract which was still in effect. These similarities raise questions about whether the duplicate requirements represented tasks for which additional contract funding was needed or could potentially result in a situation in which DDA pays twice for the same deliverable.

Recommendation 5

We recommend that DDA

- a. include the anticipated effort to complete deliverables in its contracts to enable effective monitoring and to ensure the compensation for each successfully completed deliverable is limited to the agreed-upon hours; and**
- b. compare the overall contract payments with the deliverables received, investigate any potentially duplicate payments and, in consultation with the Office of the Attorney General, pursue recovery of any such payments.**

Finding 6

DDA did not effectively monitor the contracts and the related payments. Certain deliverables were not received, vendor invoices were not effectively reviewed, and DDA authorized the contractor to perform work outside the scope of the contracts.

Analysis

DDA did not effectively monitor the contracts and the related payments. Certain deliverables were not received, vendor invoices were not effectively reviewed, and DDA authorized the vendor to perform work outside the scope of the contracts.

- DDA did not monitor the contracts to ensure deliverables were received and tasks were completed. Our tests of four deliverables that were specifically described in the contracts disclosed that three of the deliverables were not received even though the vendor has been paid the entire \$8.1 million provided for in the contracts. For example, one deliverable required the vendor to document the planned computer system requirements for a new DDA financial system. The deliverable was due to be completed by August 30, 2013 and the date was extended twice in subsequent contract

modifications until March 24, 2015. However, as of June 2016, the deliverable was not received, and DDA management advised us that it will not be provided by this vendor since it is now included in another contract. Although (as noted in Finding 5) the contracts did not specify the vendor's anticipated effort to complete each deliverables, DDA did not attempt to modify the contract to exclude a portion of the contract costs for the deliverables that were not received or were no longer applicable.

- DDA did not always obtain or review vendor status reports required by the contracts to support the amounts invoiced. The status reports identified the vendor's goals and accomplishments during the invoice period. While the contracts did not specify the vendor's anticipated effort to complete each task (as noted in Finding 5), the status reports could be used by DDA as a tool to evaluate the reasonableness of the hours charged for each task or deliverable. Prior to January 2015, the vendor did not submit the required status reports with each invoice. When the vendor began submitting the status reports, the reports did not include hours for each task for comparison to the hours charged on the invoices, and we were advised by DDA management that the status reports were not used to determine the propriety of the invoices.

DDA also did not document that the vendor only used employees approved by DDA as required by the contract. Our review of invoices dated from May 2014 through June 2015 disclosed that DDA paid \$314,000 for three employees but lacked documentation that the employees had been approved to work.

- DDA verbally authorized the vendor to perform work outside the scope of the contracts. The stated tasks and deliverables for both contracts were for consultant or advisory services. However, DDA authorized the vendor to perform routine fiscal services, such as approving invoices and preparing journal entries, without executing a contract modification. We confirmed with counsel to the Board of Public Works that these services were outside the scope of the contracts. Additionally, we determined that the hourly rates of two vendor employees who performed these routine fiscal services were approximately \$200 more per hour than the hourly rate of a DDA employee who performed similar services.

Recommendation 6

We recommend that DDA

- a. establish a formal process to ensure deliverables are received and to negotiate changes and modify related contracts to reduce costs when deliverables are determined to be no longer necessary;**

- b. in consultation with the Attorney General, determine the feasibility of recovering contract costs for deliverables that were not received on the aforementioned contracts;**
- c. obtain the required status reports with sufficient detail to assist in reviewing invoices and compliance with contract terms;**
- d. ensure payments are not made for unapproved vendor employees; and**
- e. seek contract modifications for services authorized beyond the scope of the related contracts.**

Federal Funds

Finding 7

Federal fund reimbursement requests were not made timely, resulting in lost interest income totaling approximately \$210,000.

Analysis

Federal fund reimbursement requests were not always submitted timely, resulting in lost interest income to the State of approximately \$210,000 related to expenditures incurred during the period from July 2011 through June 2015. In accordance with DDA's procedures, reimbursement requests should be made within two months of the service date.

Our test of 36 federal fund reimbursement requests, totaling approximately \$1.1 billion, disclosed that portions of each request tested totaling \$92 million were submitted from 1 to 21 months after the claims could have been submitted for reimbursement in accordance with DDA procedures. For example, in January 2015, DDA's reimbursement request contained \$32.1 million in claims that were for services dating back to July 2013. The recovery of these funds was up to 16 months late, resulting in the loss of interest income totaling \$25,700. In this regard, State general funds, which would have been otherwise available for investment, were used to finance federal fund expenditures. DDA management explained that the submissions were not timely for a number of reasons; for example, certain claims were initially submitted with incorrect information by the providers and required correction and resubmission for payment.

A similar condition was commented upon in our two preceding audit reports.

Recommendation 7

We recommend that DDA ensure that future requests for federal fund reimbursement are submitted timely (repeat).

Community Supported Living Arrangements

Finding 8

DDA did not conduct audits of Community Supported Living Arrangement providers to identify and recover overpayments.

Analysis

DDA did not conduct audits of Community Supported Living Arrangement (CSLA) providers to identify and recover overpayments. CSLA is a rate-based program which provides services to consumers who live in their own homes, such as assistance with activities of daily living. DDA historically contracted with a vendor to audit the providers; however, the most recent contract with the vendor was terminated in January 2014, and DDA did not procure a replacement or directly conduct any audits. During fiscal year 2015, DDA paid CSLA providers approximately \$90 million for these services.

Providers enter the number of service hours provided to DDA clients directly into PCIS2, which is the basis for DDA's payments. The provider audits compared the number of hours for which the providers were paid, according to PCIS2, with the number of hours that services were rendered, according to provider records, to determine if there were overpayments.

During our preceding audit, we noted that DDA contracted with a vendor to perform audits but had not adequately pursued the overpayments identified in the audits. Specifically, we reviewed all CSLA audits performed that identified overpayments for fiscal years 2010 and 2011 claims; the audits noted that there were 74 overpayments which we estimated totaled at least \$390,000.

During our current audit, DDA management advised us that it could not recover the aforementioned overpayments due to concerns with the quality of the auditor's work. However, DDA had not discussed the possibility of taking legal action against the auditors with its legal counsel. DDA management further advised that a subsequent contract was terminated shortly after it was procured due to "changes in the understanding of the expected scope of work." DDA is in the process of developing a request for proposal (RFP) for the audit services but, as of June 2016, no RFP had been issued.

Recommendation 8

We recommend that DDA

- a. consult with legal counsel to determine whether to take legal action against the auditor,**
- b. ensure audits are conducted to verify the propriety of amounts paid to CSLA providers, and**

- c. recover any overpayments identified through CSLA audits (repeat).

Provider Consumer Information System II (PCIS2)

Background

DDA operates PCIS2 which provides a mechanism to pay providers by allowing providers to access and enter program information into a centralized database using an Internet connection. For example, providers use PCIS2 to enter consumer attendance information which, in conjunction with approved payment rates programmed into PCIS2, is used to calculate payments due the providers. DDA employees also access PCIS2 via local area networks to perform critical provider and consumer activities, such as modifying consumer services, and processing the majority of DDA's expenditures. According to DDA's records, as of June 15, 2015 there were 1,778 system users of which 1,610 were providers. Fiscal year 2015 expenditures processed through PCIS2 totaled approximately \$915 million.

Finding 9

DDA did not verify critical adjustments that were processed in PCIS2, resulting in errors such as overpayments going undetected, and did not adequately restrict access to the system.

Analysis

DDA did not verify critical adjustments that were processed in PCIS2, resulting in errors going undetected, and did not adequately restrict access to the system.

- DDA had not established online or manual controls over critical adjustments to provider accounts. The adjustments were manually processed by DDA employees without any independent review and, therefore, errors would not be detected. Adjustments were made for a number of reasons. For example, year-end reconciliations between the amounts prepaid to providers and the cost of actual provider services rendered often resulted in adjustments for amounts owed or due. Our test of four payment adjustments totaling \$568,000 made in fiscal year 2016 identified two adjustments that were incorrectly processed by DDA employees totaling \$505,000. Most likely as a result of data entry errors, these incorrect adjustments resulted in one vendor being overpaid \$330,000 and a \$175,000 receivable due from another vendor being erroneously eliminated. After we notified DDA management, DDA advised us that it took steps to correct these adjustments and recovered funds as appropriate.

- DDA did not periodically review user access to ensure PCIS2 access was limited to appropriate users. Our test of access capabilities for 10 DDA users disclosed that 9 had access not required for their job duties. For example, one employee was granted unnecessary access to modify payments. The State of Maryland's *Information Security Policy* states that agencies must support the "least possible privilege" security strategy in which users are only granted the access needed to perform assigned tasks.

Recommendation 9

We recommend that DDA

- establish independent review procedures to ensure the propriety, at least on a test basis, of critical adjustments processed in PCIS2;**
- take immediate action to ensure that any improper adjustments identified are corrected and funds are recovered;**
- perform a documented periodic review of user access capabilities to ensure that users are assigned only those capabilities needed to perform job duties; and**
- eliminate unnecessary access, including those noted above.**

Finding 10

The PCIS2 database contained 58,022 unique social security numbers with associated names, dates of birth, and addresses without adequate safeguards.

Analysis

DDA inappropriately stored sensitive personally identifiable information (PII) in clear text. Specifically, as of August 28, 2015, we determined that the PCIS2 database contained 58,022 unique social security numbers for consumers along with names, dates of birth, and addresses in clear text. In addition, we determined that this sensitive PII was not protected by other substantial mitigating controls.

This PII, which is commonly sought by criminals for use in identity theft, should be protected by appropriate information system security controls. The State of Maryland *Information Security Policy* states that agencies should protect confidential data using encryption technologies and/or other substantial mitigating controls.

Recommendation 10

We recommend that DDA

- perform an inventory of its systems and identify all sensitive PII,**
- determine if it is necessary to retain this PII and delete all unnecessary PII,**

- c. determine if all necessary PII is properly protected by encryption or other substantial mitigating controls, and**
- d. use approved encryption methods to encrypt all sensitive PII not otherwise properly protected.**

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Developmental Disabilities Administration (DDA) of the Department of Health and Mental Hygiene for the period beginning February 29, 2012 and ending April 12, 2015. 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 DDA'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 federal funds, provider fee payment systems, procurements, and disbursements for consumer services. We also determined the status of the findings contained in our preceding audit report.

Our audit did not include certain support services provided to DDA by the Department of Health and Mental Hygiene. 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 Department's 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 programs and an assessment of DDA'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 DDA.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of DDA's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests 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 also extracted data from the Medicaid Management Information System (MMIS II) and from DDA's Provider Consumer Information System II (PCIS2) for the purpose of selecting test items and assessing user access. We performed various tests of the relevant data and determined that the data were sufficiently reliable for the purposes the data were used during the audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. The reliability of data used in this report for background or informational purposes was not assessed.

DDA'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.

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 DDA's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations.

In our preceding audit report, we reported that DDA's accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Our current audit disclosed DDA has improved its fiscal and compliance operations and, accordingly, DDA's accountability and compliance level is no longer unsatisfactory. Our rating conclusion has been made solely pursuant to the aforementioned law and rating

guidelines approved by the Joint Audit Committee. The rating process is not a practice prescribed by professional auditing standards.

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

APPENDIX



STATE OF MARYLAND

DHMH

Maryland Department of Health and Mental Hygiene

Larry Hogan, Governor – Boyd K. Rutherford, Lt. Governor – Van T. Mitchell, Secretary

November 17, 2016

Mr. Thomas J. Barnickel III, CPA
Legislative Auditor
Office of Legislative Audits
301 West Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel:

Thank you for your letter regarding the draft audit report for the Department of Health and Mental Hygiene – Developmental Disabilities Administration for the period beginning February 29, 2012 through April 12, 2015. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

I will work with the appropriate administration directors, program directors and deputy secretary to promptly address the audit exceptions. In addition, the Office of the Inspector General's Division of Internal Audits will follow up on the recommendations to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me at (410) 767-4639 or Megan Davey Limarzi, Inspector General, at (410) 767-5862.

Sincerely,

Van T. Mitchell
Secretary

cc: Bernard Simons, Deputy Secretary, Developmental Disabilities, DHMH
Valerie A. Roddy, Deputy Director – Fiscal & Operations, DHMH
Megan Davey Limarzi, Inspector General, DHMH
Elizabeth Morgan, Assistant Inspector General, DHMH
Shawn Cain, Chief of Staff, DHMH

DHMH Developmental Disabilities Administration Audit Response

Contribution to Care

Finding 1

Prior to fiscal year 2015, the Developmental Disabilities Administration (DDA) incorrectly directed providers to collect an estimated \$4.2 million annually from certain consumers for their cost of care. DDA believes that its administrative and financial costs to remedy this situation outweigh the potential benefits to the affected consumers.

Recommendation 1

We recommend that DDA

- a. determine the extent of the improperly collected CTC, as practical; and**
- b. present this issue and basis for its decision to the General Assembly for its consideration.**

Administration's Response

- a. The DDA does not concur with the recommendation. In Fiscal Year 2014, the DDA learned that recipients of DDA residential services who are categorically eligible for the Community Pathway Waiver Program are not subject to the Medicaid requirement of contributing to their cost of care (CTC). In January 2014, the DDA instructed providers of residential services to stop collecting the contribution to the cost of care from these individuals.

The process of determining the amount of CTC collected from categorically eligible individuals is more complicated than it may seem. The challenges to accurately determinate the amount of CTC collected are:

- The DDA database has a record of how much was supposed to be collected by residential service providers but not the actual amount collected;
- Medicaid would have to verify that the 2,536 participants are exempt from the CTC requirement for each month of eligibility prior to January 2014;
- A person's income varies month to month and is unique;
- Residential service providers would have to go through the records of the 2,536 participants for each month to confirm how much, if any, CTC was collected;

Furthermore, the issue of the impact on the participants' Medicaid eligibility and whether the Centers for Medicare and Medicaid would approve a plan to minimize any adverse impact remains unknown. For CY 2013, the value of services provided to the 2,536 individuals was \$206 million. Any adverse impact on the individuals and their services could be significant.

Auditor's Comment: We believe that determining the extent of the CTC that was improperly collected would be helpful to the General Assembly during its consideration of this situation. Ultimately, the response of the General Assembly will guide any further actions to be taken.

- b. The DDA concurs with the recommendation and agrees to present this issue and the basis for its decision to the General Assembly for its consideration.

Consumers' Services

Finding 2

DDA did not adequately monitor the resource/service coordinators' efforts to determine whether they were ensuring that consumers received the required services from providers and that Medicaid eligibility reassessments were conducted timely.

Recommendation 2

We recommend that DDA

- a. verify, at least on a test basis, that the resource/service coordinators are effectively monitoring to ensure services are provided as required in the ISPs and that adequate documentation is maintained (repeat);**
- b. follow up with providers to ensure corrective actions were taken for issues noted during site visits;**
- c. ensure that ISPs are completed in accordance with State regulations;**
- d. ensure that annual eligibility reassessments of consumers are performed, as required by federal regulations (repeat); and**
- e. determine if eligibility can be restored to the consumers who lost Medicaid eligibility because reassessments were not timely performed, including the aforementioned 17 consumers, and if federal reimbursement can be obtained for services provided (repeat).**

Administration's Response

- a. The DDA concurs with the recommendation. The DDA implemented several strategies to monitor the performance of resource/service coordinators since the last OLA audit; however, the DDA recognizes that improvements are needed. The DDA has incorporated functionality in the LTSS design that will enable the DDA to monitor the CCS' activity relative to ensuring that a person is receiving the services contained in their Individual Plan (IP). In the interim, however, staff in the regional offices will conduct random sampled quarterly reviews of IP's, CCS case notes, and billing of CCS providers to ensure the CCS are monitoring services to individuals to ensure the services are in alignment with their IP's.
- b. The DDA concurs with the recommendation. The DDA regional office staff will follow up with the provider when the corrective action is not complete.
- c. The DDA concurs with the recommendation. The DDA will pull quarterly reports from PCIS2 and distribute them to the regional offices to identify which CCS entity did not complete IP's on time in the previous quarter. For

those that are not in compliance, the CCS entity will be required to follow up with the regional office staff with a corrective action plan.

- d. The DDA concurs with the recommendation. After the last OLA Audit, DDA implemented additional communications regarding annual eligibility redeterminations and a 10% audit of individuals who lost eligibility. The audit strategy has improved the efforts of Coordinators of Community Services (CCS) to ensure individuals maintain waiver eligibility; however, the DDA is exploring proactive approaches to minimize the number of people who lose waiver eligibility.
- e. The DDA concurs with the recommendation. The DDA has reviewed the 17 consumers who lost eligibility. Thirteen of the 17 have been re-enrolled in the waiver and 4 reapplied, but were denied as ineligible. Federal reimbursement has been obtained for those re-enrolled to the extent possible.

Finding 3

DDA did not compare hours billed by the resource/service coordinators with hours worked as recorded in its PCIS2 to ensure payments were proper.

Recommendation 3

We recommend that DDA compare the hours billed by the resource/service coordinators with the hours worked as recorded in PCIS2 to ensure payments are only made for hours worked, and investigate any differences identified, including those noted above.

Administration's Response

The DDA concurs with the recommendation. Invoices submitted by resource/service coordination agencies are based on activities recorded in PCIS2. The invoices are reviewed by DDA based on a documented protocol. DDA will add a step to the protocol to ensure that invoices in the future are compared to the hours worked that are recorded in PCIS2.

The differences noted in the analysis were addressed through the monthly reconciliation process. The result was DDA recouped an overpayment from one provider and owed \$300 to another provider, which was paid.

Financial Restructuring Contracts

Finding 4

DDA did not negotiate the contract rates for either contract, and DDA procured the second contract as an emergency procurement even though certain services ultimately provided under the contract did not appear to be emergencies as defined by regulation.

Recommendation 4

We recommend that DDA

- a. negotiate vendor proposed rates when only one responsive bid is received, and**
- b. ensure that emergency procurements are only used for emergency situations as defined by regulation.**

Administration's Response

- a. The DDA concurs with the recommendation. The DDA will negotiate the proposed rates when only one responsive bid is received. DDA now documents the justification for rates proposed by successful vendors as part of the contract approval process.
- b. The DDA concurs with the recommendation. The emergency contract was initiated and processed by the previous administration. In the future, the DDA will ensure that any emergency procurements meet the criteria defined by regulations.

Finding 5

DDA lacked an effective means to monitor payments for contract deliverables, and similar deliverables were included in both contracts and in certain contract modifications.

Recommendation 5

We recommend that DDA

- a. include the anticipated effort to complete deliverables in its contracts to enable effective monitoring and to ensure the compensation for each successfully completed deliverable is limited to the agreed-upon hours; and**
- b. compare the overall contract payments with the deliverables received, investigate any potentially duplicate payments and, in consultation with the Office of the Attorney General, pursue recovery of any such payments.**

Administration's Response

- a. The DDA concurs with the recommendation. The DDA will include the anticipated effort to complete deliverables in its contracts to enable effective monitoring and to ensure the compensation for each successfully completed deliverable is limited to the agreed-upon hours, when a fixed price contract is appropriate and in the best interest of the State. The Request for Proposal that led to the contract did not require the vendor to include the anticipated level of effort associated with specific deliverables or task.
- b. The DDA does not concur with the recommendation. The DDA has agreed that the deliverables were broad and that the DDA lacked an effective means to monitor payments for contract deliverables; therefore, it would be difficult to identify specific work performed under each contract to determine any duplicate payments as suggested in the recommendation.

Auditor's Comment: While it may be difficult to determine if duplicate payments were made under these contracts, this does not preclude DDA from attempting to obtain necessary documentation from the vendor and verifying that funds paid were proper, especially considering the apparent overlap of the deliverables under simultaneous contracts.

Finding 6

DDA did not effectively monitor the contracts and the related payments. Certain deliverables were not received, vendor invoices were not effectively reviewed, and DDA authorized the contractor to perform work outside the scope of the contracts.

Recommendation 6

We recommend that DDA

- a. establish a formal process to ensure deliverables are received and to negotiate changes and modify related contracts to reduce costs when deliverables are determined to be no longer necessary;**
- b. in consultation with the Attorney General, determine the feasibility of recovering contract costs for deliverables that were not received on the aforementioned contracts;**
- c. obtain the required status reports with sufficient detail to assist in reviewing invoices and compliance with contract terms;**
- d. ensure payments are not made for unapproved vendor employees; and**
- e. seek contract modifications for services authorized beyond the scope of the related contracts.**

Administration's Response

- a. The DDA concurs with the recommendation. The DDA did not have a formal process by which to monitor the contract. Deliverables were not formally accepted but were recognized as complete when interim processes were implemented and/or when new or revised documents were released for use. The DDA implemented a documented process by which to accept deliverables in March 2016.
- b. The DDA does not concur with the recommendation. The DDA has agreed that the contracts had broad deliverables and that the contracts did not include a level of effort for each deliverable which would make this recommendation difficult to implement.

Auditor's Comment: Given the broad deliverables and the lack of the level of effort required for each deliverable, it may be difficult to identify and quantify contract costs that were inappropriately paid. However, we continue to believe that DDA should, in consultation with the Attorney General, identify deliverables not received and pursue recovery of amounts inappropriately paid.

- c. The DDA concurs with the recommendation. New procedures were implemented in March 2016 by the DDA to verify proper payments. Invoices

associated with recent contracts include a breakdown of hours spent working on specific deliverables and weekly status reports outline work performed.

- d. The DDA concurs with the recommendation. Contracts approved since January 2016 require a vendor to submit a written request to the Contract Monitor to substitute key personnel. Key personnel changes have to be approved prior to the vendor billing for the new personnel.
- e. The DDA concurs with the recommendation. The DDA agrees that the vendor was asked to perform tasks that were outside the scope of work. In the future, the DDA will ensure that only tasks included in the scope of work are performed by a vendor and will pursue a contract modification for services beyond the scope of the related contract.

Federal Funds

Finding 7

Federal fund reimbursement requests were not made timely, resulting in lost interest income totaling approximately \$210,000.

Recommendation 7

We recommend that DDA ensure that future requests for federal fund reimbursement are submitted timely (repeat).

Administration's Response

The DDA concurs with the recommendation, however, this issue will continue until the DDA is able to transition from a legislatively mandated prospective payment system for community based providers to a reimbursement model. Pursuant to legislation passed in 2014, the DDA will be able to make the change once an independent, cost-driven rate setting study is complete. The study is currently underway and the final report with recommendation is due January 2017.

In the interim, the DDA will continue its efforts to submit claims timely which have dramatically reduced lost interest. In FY 2002, the OLA cited the potential loss of \$4 million. The November 2009 audit cited the potential loss amount to \$421,000. The amount was further reduced in October 2013 to \$262,000 and has now been identified as only \$210,000 or less than 0.025% of all federal revenue collected during the audit period.

Community Supported Living Arrangements

Finding 8

DDA did not conduct audits of Community Supported Living Arrangement providers to identify and recover overpayments.

Recommendation 8

We recommend that DDA

- a. consult with legal counsel to determine whether to take legal action against the auditor,**
- b. ensure audits are conducted to verify the propriety of amounts paid to CSLA providers, and**
- c. recover any overpayments identified through CSLA audits (repeat).**

Administration's Response

- a. The DDA concurs with the recommendation. The DDA is working with the Office of the Attorney General to determine whether to take action against the auditor engaged to perform the CSLA audits.
- b. The DDA concurs with the recommendation. During the audit period the DDA was unable to procure a vendor for this service. As of August 31, 2015, CSLA was discontinued as a funded service and was replaced by Personal Supports. The DDA is in the process of developing a Request for Proposals which will include utilization review of all services funded by the DDA.
- c. The DDA does not concur with the recommendation. In 2013, when the DDA began exploring overpayment recoveries of the audits, the previous vendor was unable to produce adequate documentation to support the calculation of overpayments. In a further attempt to implement the recovery of overpayments, the DDA contacted the regional offices to obtain available documentation to support the overpayments. Through this process, DDA found that the vendor had not been conducting exit conferences to share information or discussion notes, so there was no opportunity for providers to view any audit findings or provide additional supporting documentation related to the audits.

The data provided by the previous vendor and the regional offices was not adequate to determine if any overpayment had occurred and to justify a recovery if challenged by a provider. As such, DDA was unable to proceed with the recovery process for the previous audits and shifted its efforts to ensuring that gaps identified in the previous process would not persist in

future audits conducted by a new vendor. Thus, overpayments identified as the result of any future audits will be recovered accordingly.

Auditor's Comment: Our recommendation to recover any overpayments identified through CSLA audits was prospective in nature; we did not intend that DDA attempt to recover past potential overpayments. The Department has agreed to recover overpayments resulting from future audits.

Provider Consumer Information System (PCIS2)

Finding 9

DDA did not verify critical adjustments that were processed in PCIS2, resulting in errors such as overpayments going undetected, and did not adequately restrict access to the system.

Recommendation 9

We recommend that DDA

- a. establish independent review procedures to ensure the propriety, at least on a test basis, of critical adjustments processed in PCIS2;**
- b. take immediate action to ensure that any improper adjustments identified are corrected and funds are recovered;**
- c. perform a documented periodic review of user access capabilities to ensure that users are assigned only those capabilities needed to perform job duties; and**
- d. eliminate unnecessary access, including those noted above.**

Administration's Response

- a. The DDA concurs with the recommendation. The DDA is in the process of transitioning its prospective payment process to a reimbursement payment system and transitioning from PCIS2 to the Medicaid LTSS system. These long-term efforts will address many of the DDA's longstanding weaknesses. One such weakness is the manual processing of payment adjustments.

In the interim, a process was implemented with the January 2016 quarterly payment where the Division of Cost Accounting and Reconciliation (DCAR) reviews the adjustments entered into PCIS2 prior to the DDA processing the quarterly payment in order to identify and correct errors before payment is made by DDA. Additionally, since all adjustments are entered in the current year, they are included in the DCAR reconciliation that will double check all payments to providers against the provided service.

- b. The DDA concurs with the recommendation. The DDA has investigated and taken appropriate action to correct the adjustments noted.
- c., d. The DDA concurs with the recommendations. The DDA will revise its procedures to include a periodic review of user access capabilities to ensure staff only have access necessary to perform their job duties. The DDA is currently reviewing the level of access of the 9 staff identified in the analysis to ensure they have the least possible access privilege and will make the necessary adjustments to comply with the State's *Information Security Policy*.

Finding 10

The PCIS2 database contained 58,022 unique social security numbers with associated names, dates of birth, and addresses without adequate safeguards.

Recommendation 10

We recommend that DDA

- a. perform an inventory of its systems and identify all sensitive PII,**
- b. determine if it is necessary to retain this PII and delete all unnecessary PII,**
- c. determine if all necessary PII is properly protected by encryption or other substantial mitigating controls, and**
- d. use approved encryption methods to encrypt all sensitive PII not otherwise properly protected.**

Administration's Response

- a. The DDA concurs with the recommendation. In October 2015, the DDA completed an inventory of its system and identified all sensitive PII.
- b., c., d. The DDA concurs with the recommendations. A review of sensitive PII currently collected in PCIS2 reveals the information is required in order for the administration to administer services. The DDA has found the information collected could be further protected beyond the Department's firewall with encryption or other mitigating controls. Therefore, the DDA immediately began taking measures to implement encryption technologies offered under the current license owned by the Administration. DDA tested the encryption algorithms on a test server and deployed in production the weekend of October 31, 2015.

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