

LEGISLATIVE AUDIT BULLETIN

Publication for Members of the Maryland General Assembly

DEPARTMENT OF JUVENILE SERVICES (DJS)

DJS needs to improve its federal fund management practices to maximize Medicaid and Title IV-E funding for eligible youth under its supervision and care.

OLA estimated that DJS had unreimbursed Medicaid claims totaling \$3 million for the 15-month period

reviewed. Most, if not all, of these claims will not be reimbursable primarily because DJS had not obtained a valid Determination of Needs (DoN) assessment for the applicable youths before providing treatment services. A DoN is an assessment performed by a licensed professional to substantiate a youth's need for services and placement in a residential rehabilitation setting. For some cases selected for testing, delays

in obtaining a valid DoN ranged from 36 to 422 days.

DJS also did not establish adequate controls to ensure Medicaid claims were accurately submitted and properly reimbursed. Claims submitted to its Medicaid billing contractor were not reviewed by DJS supervisors, nor properly tracked to make sure they were accepted for payment and reimbursement was actually received. Until identified by OLA, DJS failed to recover Medicaid funds totaling approximately \$511,000 that it had submitted for reimbursement 10 months earlier.

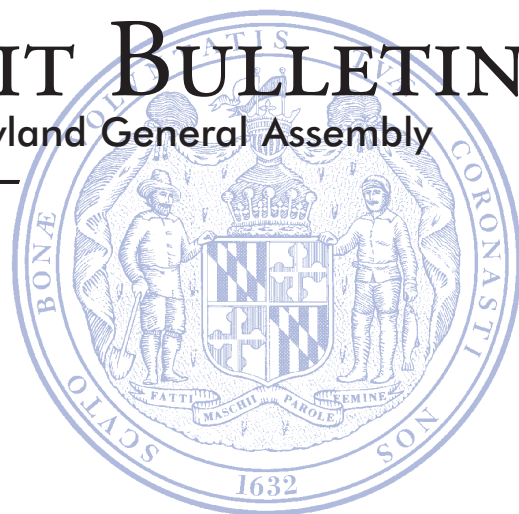
After reaching a settlement with the federal government in August 2010 over prior disallowed claims totaling \$4.8 million, DJS was allowed to resume requesting reimbursement for certain costs under Title IV-E. Under the settlement, DJS was granted \$2.3 million, but was denied reimbursement for the remaining \$2.5 million. The federal government asserted that DJS and the State Department of Human Resources were

operating separate Title IV-E programs contrary to State law, and the agreement between the two departments was inadequate.

Significant deficiencies were noted with respect to DJS's procurement and monitoring of contractors hired to provide youth care services. Contractual agreements were not always executed by DJS prior to the contract start date and were not submitted to the Board of Public Works (BPW) for approval. After we brought this situation to its attention, DJS sought retroactive approval from BPW for 52 contracts valued at \$148.5 million. DJS also did not monitor or maintain proper cost controls to ensure payments on certain contracts did not exceed the contract values.

With respect to youth monitoring, DJS did not always timely implement or review youth treatment service plans as required, and did not always document the required number of youth supervision contacts.

DJS also made certain overtime payments to ineligible employees, made duplicate salary payments to other employees, used State funds to pay parking tickets incurred by employees using DJS vehicles and failed to recover travel advances made to employees totaling \$19,000, which had been outstanding for up to five years.



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Reports Issued Since the Last Bulletin (Insert)

DJS had unreimbursed Medicaid claims totaling \$3 million for the 15-month period reviewed.

DEPARTMENT OF HEALTH AND MENTAL HYGIENE - MEDICAL CARE PROGRAMS ADMINISTRATION (MCPA)

Comprehensive procedures were not in place to monitor and address longstanding deficiencies with processes used to determine recipient eligibility under the Medical Assistance Program (Medicaid), which is administered by MCPA. The program served approximately 881,000 individuals as of June 30, 2010. Medicaid expenditures totaled \$6.8 billion during FY 2010.

The 25 year-old memorandum of understanding between DHMH and DHR, which assigns responsibility to DHR

The 25 year-old MOU with DHR needs updating and should provide a structure for resolving longstanding eligibility process deficiencies.

for determining recipient eligibility and providing MCPA with accurate and timely eligibility data, was outdated. The MOU also did not contain provisions needed to help ensure deficiencies with DHR's eligibility review process, that could allow ineligible persons to receive Medicaid services, were

promptly corrected. For example, there were 6,737 active recipients with missing social security numbers as of June 17, 2009. Social security numbers are needed to help verify applicant eligibility.

MCPA did not sufficiently verify data that were factored into the computation of capitation (per person) payments made to managed care organizations (MCOs), which enroll about 70 percent of Medicaid recipients. MCPA did not always verify provider-enrollee encounter (medical services) data, and third-party recoveries and cost avoidance reported by MCOs. Reporting errors, such as over-reporting medical service encounters and under-reporting recoveries, could lead to higher payments in future years.

To reduce costs, MCPA should exercise better oversight of claims paid for Medicaid recipients who also had Medicare coverage. Also, MCPA should ensure that drug prices paid for pharmacy reimbursements (\$271 million during FY 2009) are reasonable and that cost settlements with long-term care facilities are completed timely so that amounts owed to the State can be recovered sooner. Certain procedure and control deficiencies, which contributed to a \$1.8 million fraud in the Kidney Disease Program, still need to be corrected.

For data security reasons, MCPA should reevaluate the practice of using inmates to process sensitive claims data, such as social security numbers. MCPA contracted with the Maryland Correctional Enterprises to provide data entry services for certain physician claims.

DEPARTMENT OF PUBLIC SAFETY AND CORRECTIONAL SERVICES - BALTIMORE REGION

The Region needs to address serious procedural and record keeping deficiencies pertaining to its general and inmate working funds. The funds represent cash advances from the Comptroller of Maryland that are maintained in checking accounts to pay certain smaller operating expenditures (such as travel costs) and to disburse funds belonging to inmates. Due to the nature of the problems as well as the identification of questionable and unsupported transactions, the matters noted were referred to the Criminal Division of the Office of the Attorney General.

Serious procedural and record keeping problems contributed to questionable transactions and unaccounted for funds.

The Region did not maintain critical accounting records, such as a record of checking account transactions for either working funds. As a result, the Region was unable to account for funds totaling almost \$30,000 and paid unnecessary bank overdraft fees totaling \$23,000 because checks were issued with insufficient funds in one account.

Certain controls necessary for ensuring all working fund transactions were valid and properly authorized were lacking. Due to inadequate supervisory review of requests to replenish the inmate working fund, the Region processed 12 duplicate transmittals totaling \$28,000 and received reimbursement for \$70,000 even though there was no support for the amount requested.

Reconciliations of inmate funds on deposit with the Comptroller were not being performed. As of May 31, 2009, the aggregate balance of inmate accounts recorded on the Region's records was \$227,000 higher than the amount on deposit. Furthermore, the Region periodically transferred money between the two working funds, thereby mixing State funds with funds belonging to inmates. Disbursements and cash withdrawals, including 72 salary advances totaling \$53,000, were often unsupported and/or questionable in nature.

MARYLAND DEPARTMENT OF TRANSPORTATION - MOTOR VEHICLE ADMINISTRATION (MVA)

MVA needs to investigate the cause of a computer reporting error that allowed numerous drivers with traffic-related convictions to avoid penalties such as license suspension or revocation.

A computer reporting error allowed numerous drivers with traffic-related convictions to avoid penalties.

Traffic-related conviction information is electronically transmitted from the court system to MVA, which uses the information to assign the appropriate statutory number of points for each conviction.

These points are then automatically posted to the individuals' driving records. MVA subsequently generates reports listing the cases requiring manual analyses to determine what administrative actions should be taken (for example, accumulation of 12 points generally results in the revocation of a driver's license under State law).

Because MVA did not verify these reports were complete, certain cases were erroneously omitted and were not subject to manual analysis; consequently, administrative actions were not taken for these cases. MVA was unaware of this situation until OLA brought it to its attention. MVA believes that a computer programming error occurring during 2008 was the likely reason for the incomplete reports.

To get a sense of the potential impact of the problem, OLA performed a match of all cases with traffic-related convictions involving only 12-point violations for the period December 2008 through May 2009 (a total of 5,515 such violations) with MVA's data files containing the data used to generate computer reports of those violations for the same time period.

OLA's match identified 139 of the 5,515 violations were not listed in the data file and, therefore, the applicable driving records were not subject to the manual review process and the resulting administrative actions (such as license revocation) were not imposed, when warranted.

OLA selected 20 of those 139 cases and, with the assistance of MVA, determined that 16 drivers should have had their licenses revoked. The remaining 4 cases required no action because the individuals' licenses had been previously revoked.

Since OLA's match only included 12-point violations, MVA has expanded its review to other levels of point violations in order to ensure appropriate action is taken in all cases.

Since the previous audit, MVA had corrected 23 of the 25 findings in the prior audit report and made progress

toward resolving the remaining two findings. For example, MVA has improved computer security to help protect sensitive data of customers who conduct online business with MVA, but some customer information, such as names, credit card numbers and driver's license information were still being stored in an unsecure manner.

UPDATE ON LOCAL SCHOOL SYSTEM AUDITS

OLA has completed the first six-year cycle of performance audits of local school systems (LSS). The audit reports for the 24 LSSs contained a total of 450 recommendations designed to improve the financial management practices covering areas such as revenue collection, procurement, vendor payments, payroll processing, and computer security.

The audits identified a number of best practices that had been instituted by each LSS. Generally, LSSs had established proper accountability over revenue sources, participated in purchasing cooperatives to leverage cost savings, used available USDA commodities to reduce student food services costs, and maximized recoveries for Medicaid-eligible services provided to students.

Certain common financial management issues have been found among the LSSs. Generally, the LSSs need to improve internal controls over their automated systems used for processing procurements and vendor payments and payroll and human resource transactions. Better controls are needed to help ensure only authorized transactions are processed in these financial areas, which typically account for the majority of LSS expenditures. Also, computer systems generally need to be better secured and improved disaster recovery plans are needed.

At many LSSs, operational oversight could be enhanced by expanding the use of performance measures to better evaluate efficiency and effectiveness in areas such as student transportation, facility operations and maintenance and food services. The LSSs that hire contractors to provide bus transportation services generally need to better analyze the basis for the established payment rates. OLA has determined that in many cases the rates were higher than necessary.

These audits have had a meaningful impact on LSS financial practices. For example, in response to audit recommendations, certain systems have begun conducting health care coverage eligibility reviews of claimed dependents to prevent payments for health care services for ineligible persons and have implemented computerized bus routing to reduce the number of buses and bus runs while still meeting student transportation needs.

OLA has completed the first cycle of local school system audits and made 450 recommendations to improve financial management practices.

FINDINGS FROM SELECTED AUDIT REPORTS

Department of General Services – Office of Procurement and Logistics (OPL) had not ensured that the State's contract for commercial fuel services for State vehicles represented the best value to the State. The contract has been held by the same vendor since 1989. When the 2002 contract was renewed in 2007, OPL did not perform any analysis to determine if the renewal was in the State's best interest. Such an analysis would have been prudent given that the solicitation for the 2002 contract included certain restrictive requirements that effectively prohibited other vendors from competing for the contract. During FY 2009, the State paid the vendor \$76.6 million.

State Board of Elections' (SBE) procedures to ensure the propriety of critical changes to the statewide voter registration database (such as to add or delete voter registrations) were not comprehensive, and SBE did not ensure that convicted felons were removed from the database by the local election boards. SBE did not periodically conduct formal comprehensive reviews of the local boards' compliance with election laws and regulations, such as those related to absentee and provisional balloting.

Maryland Higher Education Commission (MHEC) did not fully report unfunded liabilities at the end of FY 2009 to the Comptroller of Maryland and did not request a deficiency appropriation to resolve its deficit of \$11 million as of June 30, 2009.

Department of Public Safety and Correctional Services – Division of Parole and Probation (DPP) did not have a system in place that could readily identify or track individuals placed under its supervision that were required by the court system to have an ignition interlock device installed in their motor vehicles. The device connects the vehicle's ignition system to a breathalyzer unit and helps prevent individuals from operating vehicles while under the influence of alcohol. Also, DPP was not consistently receiving the required monthly reports from interlock device vendors identifying attempts by offenders to start their vehicles, including violations from breathalyzer test failures and improper use of the device.

Comptroller of Maryland – Revenue Administration Division needs to improve its procedures for validating the social security numbers of dependents claimed on individual income tax returns and the eligibility of individuals that claimed the earned income tax credit. OLA identified instances in which tax returns contained invalid social security numbers for dependents and tax credits that were received by ineligible individuals.

Department of Labor, Licensing and Regulation – Office of the Commissioner of Financial Regulation (OCFR) did not always conduct examinations of mortgage lenders within the time frame required by State law. As of November 2, 2009, OCFR was late in performing examinations for 363 of 2,093 licensed mortgage lenders, including 107 examinations that were past due by periods ranging from 12 months to more than 5 years.

The Legislative Audit Bulletin is periodically issued by the Office of Legislative Audits (OLA) to inform the General Assembly of audits or reviews completed and to provide a summary of significant findings from selected reports. Unless specifically noted, the agencies generally agreed with the audit findings and recommendations, although some follow-up of the report response may have been necessary. Copies of reports can be obtained from the web site or by contacting either OLA or the Department of Legislative Services, 90 State Circle, Annapolis, Maryland 21401, 410-946-5400 - 301-970-5400. For further details about any report or finding, please contact OLA at the listed numbers. We welcome your comments and suggestions.

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LEGISLATIVE AUDIT BULLETIN

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