



Department of Legislative Services
Office of Legislative Audits

Maryland Department of Health (MDH) - Office of the Secretary and Other Units

Report Dated October 19, 2023

and

Update of Related Issues from FYE 2023 Closeout Review

Presentation to the Senate Budget and Taxation Subcommittee

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Report Overview

- MDH is responsible for promoting the health of the public and for strengthening partnerships between State and local governments, the business community, and all health care providers in Maryland.
 - The audit report covers the period from February 12, 2019 to June 30, 2022. The report contains 17 findings, including 2 repeat findings from the prior audit report.
 - We determined that MDH's accountability and compliance level was unsatisfactory in accordance with the rating system we established in conformity with State law. The primary factors contributing to this rating were the number and significance of the audit findings.
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Key Findings

Federal Funds

- **Finding 1** – MDH did not ensure provider payments were entered into the Medicaid Management Information System (MMIS II) and resolved rejected claims for timely & complete recovery of funds.
 - **Finding 2** – MDH did not ensure critical quarterly reconciliations were performed, resulting in the failure to recover \$973.3 million of federal funding timely and lost investment income totaling \$6.4 million.
 - **Finding 3** – MDH did not have procedures to ensure federal funds requested for reimbursement of State payments were received.
 - **Finding 4** – MDH did not ensure federal funds were properly accounted for, resulting in a lack of assurance that account balances were accurate and the inability to determine whether all federal funds had been recovered.
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Key Findings (continued)

Year-End Closeout

- **Finding 5** – MDH recorded year-end revenue entries without verifying that the amounts were valid and collectable. Similar results were noted in our Statewide Review of Budget Closeout Transactions for both fiscal years 2022 and 2023.

Procurement and Disbursements

- **Finding 6** – MDH used an emergency contract for unrelated services without ensuring that the services were received and the related payments were proper.

Information Systems Security and Control

- **Findings 8 to 12** – *In accordance with SG 2-1224(i), these findings were redacted from the public copy of the audit report.*



MDH Federal Funds Overview

- MDH's FY 2022 federal fund expenditures totaled \$10.6 billion, of which \$10.2 billion (96 percent) were made by the Medical Care Programs Administration (MCPA), the Behavioral Health Administration's Administrative Service Organization (BHA – ASO), and the Developmental Disabilities Administration (DDA).
- Virtually all these units' federal fund expenditures related to the Medical Assistance Program (Medicaid), the Maryland Children's Health Insurance Program (MCHIP), and the Money Follows the Person Program (MFP).

Federal Grant	FY 2022 Expenditures (\$ in millions)
Medicaid	\$ 9,957
MFP	4
MCHIP	250
Other	1
Total	\$10,212

Source: State accounting records



MDH Federal Funds Overview (Continued)

Pay

- MDH units (MCPA, BHA, and DDA) pay providers (such as physicians) for services rendered to eligible individuals.
- Units record payments in MMIS II for federal drawdown.

Request

- MDH submits weekly reimbursement requests to the federal government based on claims recorded in MMIS II.
- Quarterly reconciliations are performed to ensure that all payments were requested from the federal government.

Receive

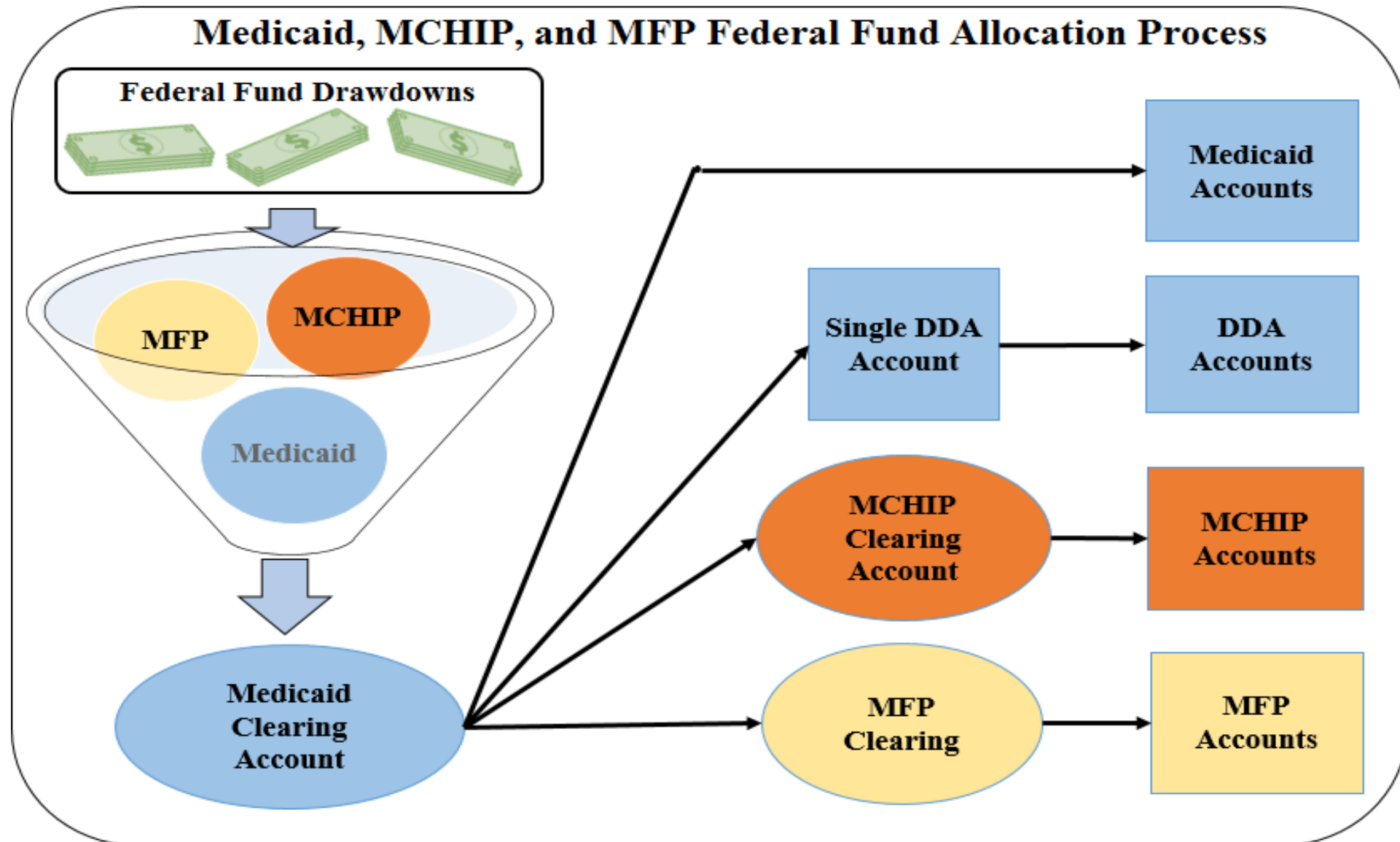
- Funds received from the federal government are credited to the Medicaid clearing account by the Office of the State Treasurer.

Allocate

- MDH allocates funds from the clearing account to the related expenditure accounts.



MDH Federal Funds Overview (continued)





Federal Funds (Finding 1)

MDH did not have procedures to ensure MDH units properly entered all provider payments into MMIS II and resolved any rejected claims to enable timely and complete recovery of the funds. As a result, certain claims were not entered into or were rejected by MMIS II, and therefore the related federal funds were not recovered.

- Four of our most recent five DDA audit reports have noted instances in which federal funds were not recovered because the payments were not recorded in MMIS II. Most recently, our October 26, 2022 report noted that \$8.8 million was not recorded in MMIS II and the funds are no longer recoverable.
- Our October 25, 2022 BHA – ASO report disclosed that BHA had unresolved denied claims totaling approximately \$106.7 million that had not been investigated as of September 2021.



Federal Funds (Finding 2)

MDH did not ensure critical quarterly reconciliations were performed, resulting in the failure to recover \$973.3 million of federal funding and lost investment income totaling \$6.4 million.

- In August 2022, we noted that MDH had not conducted reconciliations for activity during the period from October 2019 to June 2022. These reconciliations ensure that amounts requested from the federal government agreed to MDH's actual expenditures and are used to adjust subsequent reimbursement requests.
- After bringing this to MDH's attention, MDH performed the reconciliations and identified and recovered \$973.3 million.
- We estimated the failure to recover these funds timely resulted in lost investment income of \$6.4 million.



Federal Funds (Finding 3)

MDH did not have procedures to ensure requests for federal fund reimbursement were subsequently received.

- MDH did not verify the receipt of federal fund reimbursements for the Medicaid, MCHIP, and MFP grants that collectively accounted for 96 percent (\$10.2 billion) of MDH's \$10.6 billion in federal fund expenditures in fiscal year 2022.
- Although our testing did not identify any instances in which federal fund reimbursement requests were not received, given the significant amount of federal funds associated with these grants, MDH should establish a documented procedure to ensure each federal fund request is received.



Federal Funds (Finding 4)

MDH did not have procedures to ensure federal fund reimbursements were properly allocated to the appropriate accounts and could not determine whether all federal funds had been recovered.

- MDH allocated federal funds from the Medicaid clearing account to the related expenditure accounts without considering the amount of revenue available for distribution. As of June 30, 2022, the Medicaid clearing account reflected a \$1.1 billion deficit balance.
- As of June 30, 2022, federal fund revenues totaling \$2.8 billion had not been allocated from the DDA, MCHIP, and MFP subsidiary accounts to the related expenditure accounts.
- MDH did not update its procedures to reflect changes in the DDA federal fund accounting process. While federal funds totaling \$301 million were likely allocated to non-DDA expenditure accounts (such as Medicaid), MDH could not determine the disposition of the funds.

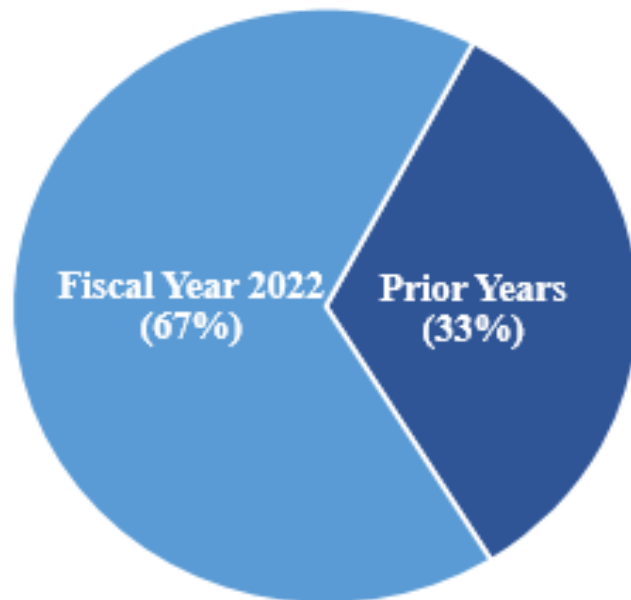


Federal Funds (Finding 4 continued)

MDH could not determine the extent to which numerous positive and negative account balances were related. Our analysis disclosed that 33 percent of the 2022 FY-end account balances were identical to balances in one or more prior years dating back to FY 2015.

Fiscal Year 2022 Year-End Balances Identical to One or More Prior Years

Fiscal 2022 vs. Prior Year Activity



Fiscal Year	Deficit		Surplus	
	Accounts	Balance	Accounts	Balance
2015	3	\$ (48,967,112)	4	\$ 8,239,730
2016	10	(39,952,425)	0	-
2017	15	(799,913,487)	4	741,038,271
2018	0	-	0	-
2019	45	(433,554,877)	10	456,136,112
2020	40	(240,020,631)	5	192,817,888
2021	37	(323,266,879)	6	87,481,197
Total	150	(\$1,885,675,411)	29	\$1,485,713,198

Source: State accounting records



Budgetary and Year-End Closing (Finding 5)

MDH used an automated script to record year-end revenue entries without verifying the amounts recorded were valid and collectable.

- At the end of fiscal year 2022, MDH recorded 1,250 accrued federal fund revenue entries totaling approximately \$10.2 billion.
 - 517 entries (41 percent) related to accounts that had no expenditure activity recorded during fiscal year 2022.
 - 361 of the 517 entries (70 percent) were identical to entries made in one or more prior fiscal years dating back to 2015.
- The lack of current year expenditures and the age of these entries raises concerns that federal reimbursement for previous State payments may not have been requested and may no longer be available.



Procurements and Disbursements (Finding 6)

MDH used an emergency contract for services unrelated to the original procurement without sufficient documentation that the services were received and the payments were proper.

- MDH could not justify three contract modifications that increased the scope and cost of the contract by \$62 million.
- MDH could not document that it requested, reviewed, and approved the work the vendor performed.
- MDH did not obtain statements of work for each vendor employee as required by the contract.
- Vendor invoices did not include documentation that would allow MDH to verify the billings were proper.



Other Financial-Related Findings

Finding 7 – Procurements and Disbursements (Repeat Finding)

MDH did not always comply with State procurement regulations when procuring goods and services via sole source and emergency contracts and did not always publish contract solicitations and awards as required.

Finding 13 – Accounts Receivable

MDH was eight months behind on billing for services rendered at MDH inpatient facilities, which could total approximately \$45.4 million.



Other Financial-Related Findings (continued)

Finding 14 & 15 – Payroll

- MDH did not ensure the propriety of biweekly payroll payments, leave balances, and timesheets. **(Repeat Finding)**
- MDH did ensure that employees who were terminated or left State service were promptly removed from payroll, resulting in improper payments to at least 45 former employees totaling \$151,000.

Finding 16 – Cash Receipts

MDH did not timely endorse and deposit collections, verify collections were deposited, and require electronic submission of large payments.

Finding 17 – Executive Oversight

MDH did not ensure that appropriate corrective actions were implemented to address prior findings from our Office's fiscal compliance audits of the other MDH units.



Information Systems Security and Control (Findings 8 – 12)

Redacted cybersecurity-related findings.

Criteria: State Government Article §2-1224(i)



Conclusions

MDH should:

- record, recover, and properly account for federal fund expenditures;
 - ensure year-end revenue transactions are properly supported;
 - ensure emergency contracts are procured in accordance with State procurement regulations and properly monitored;
 - address the backlog in unbilled services and bill future services timely;
 - implement appropriate information systems security and controls;
 - verify adjustments to employee pay and leave balances and remove terminated employees from payroll timely;
 - establish controls over cash receipts; and
 - take corrective actions to address OLA audit findings of MDH units.
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Review of Budget Closeout Transactions for Fiscal Year 2023

Background

- OLA conducts an annual review of budget closeout transactions, for the general purpose of alerting the Maryland General Assembly of issues that could impact the State's budget.
- Our review of the 2022 closeout and fiscal compliance audit of MDH (noted in our earlier slides) identified significant concerns with MDH's year-end entries for federal funds.
- During FY 2023 MDH worked with DBM and contracted with an accounting firm to help improve its fiscal practices. MDH also made adjusting entries to eliminate certain longstanding deficit balances.
- Corrective action is still ongoing and our review of MDH's FY 2023 closeout transactions noted similar concerns to those in 2022.



Review of Budget Closeout Transactions for Fiscal Year 2023

Our January 19, 2024 Review of Budget Closeout Transactions for Fiscal Year 2023 included 8 findings, of which the following 3 findings related to MDH.

- MDH could not provide documentation to support the propriety of accrued federal fund revenue or the subsequent recovery of the funds.
- MDH reported \$123 million in unprovided for payables and other general fund liabilities as of June 30, 2023.
- MDH did not properly report unrecoverable federal funds potentially totaling \$8.8 million to the General Accounting Division.



Accrued Revenue Transactions (Closeout Finding 1) **Repeat Finding**

MDH continued to record year-end revenue entries without verifying that the amounts recorded were valid and collectable. At the end of fiscal year 2023, MDH recorded 1,221 accrued federal fund revenue entries totaling approximately \$7.9 billion.

- Our test of 8 entries totaling \$2.5 billion disclosed MDH could not document that 5 entries (totaling \$2.3 billion) accurately reflected amounts collectable from the federal government or the subsequent recovery of the funds.
- Our analysis disclosed that 408 of the 1,221 entries related to accounts with no expenditure activity during fiscal year 2023, including 197 entries that were identical to entries made in one or more prior fiscal years dating back to 2015.



Other Liabilities (Closeout Finding 6) **Repeat Finding**

MDH reported \$123 million in unprovided for payables and other general fund liabilities as of June 30, 2023 comprised of the following:

- Disallowed federal fund claims totaling \$34.2 million for services which DDA approved without considering the level of need.
- Estimated reimbursements to Medicaid providers for services rendered during fiscal year 2023 that exceeded MCPA's appropriation by \$32.8 million.
- A potential liability totaling \$56 million that must be spent on the MCPA Money Follows the Person program by September 30, 2025 or returned to the federal government.



Other Liabilities (Closeout Finding 7)

MDH did not properly report to the General Accounting Division unrecoverable federal funds potentially totaling \$8.8 million noted in our October 26, 2022 audit report of DDA.

- Although MDH previously advised that these funds were no longer recoverable due to the age of the expenditures, during the current closeout review MDH advised that the unrecoverable amount is less than \$8.8 million because certain payments were not eligible for federal reimbursement.

- As of December 2023, MDH was still investigating the matter but acknowledged that at least some portion of the \$8.8 million is unrecoverable.