

Special Review

**Department of Health and Mental Hygiene
Medical Care Programs Administration
Follow-up Review**

July 2007



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

July 13, 2007

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a follow-up review of the actions taken by the Department of Health and Mental Hygiene – Medical Care Programs Administration (MCPA), as of February 1, 2007, to address the findings in our July 28, 2006 audit report. In that report, we concluded that MCPA's fiscal accountability and compliance rating was unsatisfactory.

We performed certain procedures to evaluate the corrective actions taken by MCPA. Specifically, we selected 10 of the 20 findings from our audit report and reviewed MCPA's progress. Our review disclosed that MCPA had made some progress in resolving the audit findings reviewed:

Implementation Status	Number of Findings
Corrected	1
Substantial Progress	4
In Progress	2
Minimal Progress	3
No Progress	0
Status Not Determined (item not selected for review)	10

MCPA had initiated corrective action on all 10 findings reviewed; and had established a corrective action plan, which included timelines and processes to monitor the implementation of the plan, for all 20 findings from our audit report. Nevertheless, most of the recommendations were still in progress of being implemented as they relate to complex issues that require extensive time and effort to resolve. If MCPA continues on this course for all findings and, if other areas do not deteriorate, our next audit should result in an improved accountability and compliance rating.

The current status of each of the 10 findings we reviewed is identified in Exhibit 1. In addition, Exhibit 1 includes MCPA's self-assessment of the implementation status for all 20 report findings. Exhibit 2 describes, in greater detail, the current status for the 5 findings we determined that MCPA had not corrected or substantially addressed. The Department's response to our review results is included as an appendix to this report.

We will review the status of all of the audit findings during our next audit of MCPA. We wish to acknowledge the cooperation extended to us by MCPA during this review.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Exhibit 1: Current Status of Findings in July 28, 2006 Audit Report

Prior Finding	Current Status Based on Auditor's Review as of February 2007	Current Status as Determined by MCPA as of January 2007
Provider Reimbursements		
1. MCPA overrode or bypassed certain automated system edits for claims totaling approximately \$1.5 billion.	Minimal Progress	Minimal Progress
2. Payments were made for untimely claims in violation of State regulations.	Substantial Progress	Corrected
3. MCPA processed \$8.1 million in claims to providers whose eligibility had expired.	N/A	Substantial Progress
4. Controls over the processing of provider changes in the Medicaid Management Information System (MMIS II) were not adequate.	Corrected	Corrected
5. Assurance was lacking that payments totaling \$43 million for emergency procedures for aliens were legitimate.	Minimal Progress	In Progress
Medical Assistance Recipient Eligibility		
6. Payments totaling \$32.2 million were made on behalf of recipients with invalid or missing social security numbers.	Substantial Progress	Minimal Progress
7. MCPA did not effectively monitor the Medicaid eligibility determination process.	Substantial Progress	Substantial Progress
Maryland Pharmacy Programs		
8. Prior to January 2006, a policy concerning the payment for erectile dysfunction drugs was not established (Policy Issue).	N/A	Corrected
9. The vendor responsible for processing pharmacy claims did not provide required audit reports timely.	N/A	Corrected
10. MCPA's pharmacy audit procedures were inadequate.	Substantial Progress	Corrected
HealthChoice		
11. MCPA did not adequately verify individual encounter data submitted by the Managed Care Organizations.	N/A	Minimal Progress
Page 1 of 2		

N/A – not applicable since implementation status was not reviewed

Shaded findings are more fully described in Exhibit 2.

Exhibit 1: Current Status of Findings in July 28, 2006 Audit Report

Prior Finding	Current Status Based on Auditor's Review as of February 2007	Current Status as Determined by MCPA as of January 2007
Recovery Procedures		
12. MCPA did not initiate appropriate actions when hospitals denied access to claims records for audit.	In Progress	Corrected
13. MCPA did not adequately monitor the vendor contracted to conduct hospital bill audits.	N/A	In Progress
14. Accounts receivable records related to recoveries were inadequate.	N/A	Minimal Progress
Contract Monitoring of Cost Settlements		
15. MCPA did not adequately monitor the vendor performing cost settlements and authorized \$230,000 in payments that exceeded the contract amount.	N/A	In Progress
Information Systems Security and Control		
16. MCPA did not adequately restrict access to critical claims processing menu functions.	Minimal Progress	Substantial Progress
17. MCPA did not have a current, comprehensive, and documented disaster recovery plan.	In Progress	Substantial Progress
Electronic Data Interchange Translator Processing System (EDITPS)		
18. Controls over EDITPS user authentication, data transmission, and monitoring were inadequate.	N/A	Corrected
19. Controls over user accounts and monitoring of the EDITPS web server's host operating system were inadequate.	N/A	Corrected
20. The server hosting the EDITPS web server was not backed up for disaster recovery purposes.	N/A	Corrected
Page 2 of 2		

N/A – not applicable since implementation status was not reviewed

Shaded findings are more fully described in Exhibit 2.

Exhibit 2

Current Status of Findings for Which Corrective Action Was Deemed to be “In Progress” or “Minimal Progress”

Provider Reimbursements

Prior Finding 1

MCPA processed claims totaling approximately \$1.5 billion by overriding or bypassing certain automated system edits that were designed to identify improper claims. The vast majority of these claims were paid without manual reviews of the claims being performed.

Prior Report Recommendation

1. We recommended that MCPA process all claims through the standard system edits, unless approval to automatically override the edits is obtained from the federal granting agency.
2. In addition, we recommended that claims that are suspended and later paid by manual overrides be subject to sufficient review in accordance with MCPA policy.
3. We also recommended that MCPA adequately review previously paid claims that were processed by (automatically) overriding or bypassing system edits to ensure the claims were proper, that this review be performed by an individual independent of the claims processing and system overriding process, and that this review be documented and retained for future reference.
4. Finally, we recommended that MCPA review the questionable payments identified and ensure recovery of any improper payments.

Current Status – Minimal Progress

1. MPCA has continued to automatically override certain edits to process claims. Specifically, according to MCPA records, during the period from August 2006 through January 2007, MCPA processed fee-for-services claims totaling approximately \$600 million by automatically overriding certain edits that were designed to detect errors. MCPA believes that its payment of many of these claims was proper because several of the related edits were unique to the State of Florida’s Medicaid System (from where Maryland purchased its present system) or were federally-approved changes to the Maryland Medicaid

Program. Thus, MCPA believes these edits were not applicable and needed to be overridden; however, a full evaluation of these system edits has not been completed.

2. Although, in accordance with its policy, MCPA has performed supervisory reviews of claims that were suspended and later paid by manual overrides, certain claims were not included in the reviews. For example, \$920,000 in claims processed by the Department's Developmental Disabilities Administration (DDA) for the period from August 2006 through January 2007, were suspended and later paid by manual overrides without supervisory reviews by either DDA or MCPA staff. MCPA believes that these claims and related supervisory reviews are DDA's responsibility.
3. Because of ongoing communications on this issue between OLA and MCPA, MCPA has postponed conducting a comprehensive review of the propriety of previously paid claims that were processed by automatically overriding or bypassing system edits. Although previously paid claims have not yet been reviewed, MCPA has instituted a process to test certain current claims prior to payment. We were advised that, as of March 2007, MCPA tested approximately 1.5 percent of \$746,000 in current Mental Hygiene Administration (MHA) claims that were processed by bypassing system edits during fiscal year 2007. We were advised that this testing did not disclose any errors and, in accordance with MCPA policy, all of the claims were processed in order to obtain federal reimbursement. (We were advised that if MCPA detects one error during this testing, the entire batch is rejected and returned to MHA). Because of MCPA's testing process, MHA is not required to review any claims for propriety prior to submitting them to MCPA.
4. MCPA has completed its review of the approximate \$1 million in potential duplicate MHA charges that were identified in our audit report and agreed that these claims appear to be duplicates. The results of the MCPA review were forwarded to MHA in February 2007. As of April 2007, recovery of the vast majority of these duplicate payments had not been initiated.

Due to the complexity of the MCPA claims processing system, as well as the significance of claims processed for which system edits are overridden and bypassed, OLA plans to conduct a separate performance audit of MCPA's claims and edit processes. This audit will include a determination of the MCPA's assertion that the various edit overrides are appropriate. This performance audit is anticipated to begin in the second half of the 2007 calendar year.

Prior Finding 5

MCPA lacked assurance that \$43 million in claims paid for emergency procedures for aliens in fiscal year 2005 were legitimate.

Prior Recommendation 5

1. We again recommended that formal criteria be established by MCPA to define emergency procedures and diagnoses that will be paid.
2. We also recommended that MCPA retain all medical documentation that is the basis for MCPA's approval of all emergency procedure requests for aliens.
3. In addition, we again recommended that MCPA compare claims paid to authorized emergency procedures, on a test basis, for propriety.
4. Finally, we again recommended that MCPA verify, in the future, that all emergency expenditures are properly reported to the Federal Centers for Medicare and Medicaid Services (CMS).

Current Status – Minimal Progress

1. In December 2006, MCPA submitted proposed changes to State regulations to better define emergency procedures. As of April 2007, these proposed changes have been submitted to the appropriate legislative committee and MCPA is awaiting a final decision.
2. MCPA stated that, in lieu of retaining all medical documentation, it would modify the approval letter to indicate the emergency condition that was authorized for payment and that this letter would be signed by a medical professional indicating approval of the payment for the specified condition. We determined that MCPA has made this modification to the approval letters, has obtained signatures of medical professionals, and has retained the signed letters.
3. MCPA has not compared claims paid to authorized emergency procedures, but is in the process of determining the procedures and sampling techniques needed to perform these reviews. According to MCPA records of claims paid during the period beginning August 1, 2006 and ending January 31, 2007, MCPA paid claims totaling approximately \$67,000 for routine prenatal or post-partum care charges that were specifically excluded as emergency procedures, according to MCPA's definition in its *Medicaid Manual*. Also, we questioned the appropriateness of another \$342,000 in claims paid during the same period, based on the types of services provided (nursing home care, observation, clinic visits).

4. Although MCPA is currently testing a system program change to properly capture and record these claims payments, the improper amounts of emergency expenditures have continued to be reported to CMS. We noted that the quarterly reports submitted to CMS reflected only \$182,661 for the period July 1, 2006 through December 31, 2006; however, according to MCPA records of paid claims for the period beginning August 1, 2006 and ending January 31, 2007, the actual emergency expenditures averaged approximately \$6 million a month.

Recovery Procedures

Prior Finding 12

MCPA did not initiate appropriate actions when numerous hospitals denied MCPA's contractor access to claims records to conduct audits to identify overpayments resulting from third party recoveries.

Prior Report Recommendation

We recommended that MCPA instruct the hospitals to allow MCPA's contractor access to the claim records, in accordance with MCPA's standard provider agreement. If access is not granted, we recommended that MCPA immediately initiate appropriate actions (such as withholding payments for Medicaid services provided or initiating legal action).

Current Status – In Progress

MCPA sent letters to providers during August 2006 advising them to allow MCPA's contractor access to the claim records. MCPA further informed the providers that disciplinary action would be initiated should a provider prevent MCPA's contractors from completing the required audits.

Based on our inquiries, we were advised by MCPA's contractor that, as of March 28, 2007, all providers have allowed them access to claims records except for one hospital. The contractor also advised us that its efforts during the period from September 2006 through March 2007 to obtain access from this one hospital were unsuccessful. Until our inquiry, MCPA was not aware that this hospital continued to deny access; therefore, appropriate actions were not initiated timely to obtain access.

Information Systems Security and Control

Prior Finding 16

MCPA did not adequately restrict access to critical claims processing menu functions.

Prior Report Recommendation

We recommended that MCPA limit access to its critical claims processing menu functions to only those current employees whose job responsibilities require such access, and that userids be deleted immediately upon employee termination. We also recommended that each system user be assigned a unique userid. In addition, we recommended that MCPA periodically review critical MMIS II screen accesses granted to employees to ensure that access granted is appropriate.

Current Status – Minimal Progress

Our review of system access to critical claims processing menu functions as of February 27, 2007, disclosed that, although MCPA did instruct the security officers to periodically review critical MMIS II screen accesses, these reviews were not independent because these officers also granted the access. Although our limited review of system access did not find instances of system users sharing userids (that is, unique userids were assigned), we did note other current exception conditions similar to those described in our prior report. Specifically, we noted the following conditions:

- One individual who had terminated employment with MCPA, effective June 30, 2006, still had an active userid as of February 27, 2007 which allowed the ability to add and change claims data.
- Five users had unnecessary or improper access to critical MMIS II menu functions even though their job duties did not require such access. Three of these five users were noted as having similar access in our audit report.
- MCPA could not identify the employees assigned to two MMIS II userids. These userids have the ability to update recipient eligibility information.

Prior Finding 17

MCPA did not have a current, comprehensive, and documented disaster recovery plan.

Prior Report Recommendation

We again recommended that MCPA comply with DBM's *Information Technology (IT) Disaster Recovery Guidelines* and develop a current, comprehensive, and documented disaster recovery plan.

Current Status – In Progress

MCPA IT processing is conducted at two sites: the Comptroller of the Treasury's Annapolis Data Center (ADC) and DHMH's O'Connor Building in Baltimore. Although MCPA has developed a current, comprehensive, and documented disaster recovery plan for its ADC-based processing functions, disaster recovery plans for IT processing activities at the O'Connor Building do not address certain required components of a disaster recovery plan. The most significant component not addressed is the use of an alternate site in the event of a major disaster at this facility, which could cause significant delays (for an undetermined period of time) in restoring all MCPA computer operations.

Scope, Objectives, and Methodology

We conducted a follow-up review of the actions taken by the Department of Health and Mental Hygiene – Medical Care Programs Administration (MCPA), as of February 1, 2007, to address selected findings in our July 28, 2006 audit report. In that report, we concluded that MCPA's fiscal accountability and compliance rating was unsatisfactory.

The purpose of our review was to determine the current status of MCPA's corrective actions to address certain of our audit findings. This review was conducted based on our long-standing practice of performing a follow-up review whenever an agency receives an unsatisfactory rating in our fiscal compliance audit report. The rating system was established, in accordance with State Government Article, Section 2-1221 of the Annotated Code of Maryland, for the purpose of determining an overall evaluation of an agency's fiscal accountability and compliance with State laws and regulations.

Our review consisted of obtaining a January 2007 status report from MCPA (describing the level of implementation of each prior audit report recommendation), performing tests and analyses of selected information, and holding discussions with MCPA personnel as we deemed necessary to determine the status of MCPA's corrective actions to address selected findings from our July 28, 2006 audit report. Our review did not constitute an audit conducted in accordance with generally accepted government auditing standards. Had we conducted an audit in accordance with generally accepted government auditing standards, other matters may have come to our attention that would have been reported. Our review was conducted primarily during February through April 2007.

The Department of Health and Mental Hygiene's response, on behalf of MCPA, to our follow-up review 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

201 W. Preston Street • Baltimore, Maryland 21201

Martin O'Malley, Governor – Anthony G. Brown, Lt. Governor – John M. Colmers, Secretary

July 9, 2007

Mr. Bruce A. Myers, CPA
Legislative Auditor
Department of Legislative Services
Office of Legislative Audits
301 W. Preston Street, Room 1202
Baltimore, MD 21201

Dear Mr. Myers:

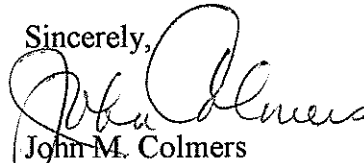
This is in response to your June 20, 2007 letter that included the draft Follow-up Review of the Medical Care Programs Administration as of February 1, 2007. Attached you will find the Department's response and plan of correction that addresses each item selected for review.

As explained in our previous response, the Department takes the audit report's findings very seriously and as a result has initiated several initiatives to improve audit compliance and accountability. The first initiative was the reorganization of the Medical Care Programs Administration (MCPA), which included the transfer of the MCPA internal audit staff to the DHMH Office of the Inspector General (OIG). The second initiative to increase compliance was to require monthly status reports and meetings to assess the progress towards implementation of corrective action plans. The last initiative was to appoint a Deputy Secretary of Health Care Financing, which occurred on April 16, 2007 to help oversee the implementation effort.

As stated in the legislative auditor's follow-up review, MCPA has initiated corrective action on all 10 findings selected for review and if the Program continues on its current course our next audit should result in an improved accountability and compliance rating. I will continue to work with the appropriate Directors of Administration, Program Directors, and Deputy Secretary to promptly address any remaining audit exceptions. In addition, our OIG's Division of Internal Audits will follow-up on the recommendations to ensure compliance.

Bruce A. Myers
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Lastly, the Department would like to thank the audit staff who performed this review. They were always professional and patient with us as we tried to address all their concerns. If you have any questions, please do not hesitate to contact me at (410) 767-6505 or Mr. Thomas Russell of my staff at (410) 767-5228.

Sincerely,

John M. Colmers
Secretary

Attachment

cc: John Folkemer
Ellwood Hall
Susan Tucker
Patricia Rutley-Johnson

Tom Russell
Audrey Richardson
Chuck Lehman
Marlana Fox

Provider Reimbursements

Prior Finding 1

MCPA processed claims totaling approximately \$1.5 billion by overriding or bypassing certain automated system edits that were designed to identify improper claims. The vast majority of these claims were paid without manual reviews of the claims being performed.

MCPA Response

1. As stated by the auditors, MCPA continues to believe the claims processed by overriding certain edits are proper. At the Joint Audit Committee meeting, Senator Hogan inquired as to what percent of the 1.5 B of overridden claims had been determined to be invalid. OLA stated their review did not provide that determination. It was decided by OLA that before MCPA or their office proceeded forward with a time consuming claims review process, that the Program should perform an edit analysis to determine exactly what edits had been bypassed and the reasons for the overrides. From this analysis, the Program determined that approximately 50 percent of the 1.5 B cited in the report, was determined to have applied to the Florida State System (from whom we purchased the system), and did not apply to the Maryland Medicaid Program. In addition, after the Audit committee hearing, the Program also explained to OLA the reasons for the bypasses that were required to our own Maryland Medicaid system that resulted from changes in the laws, etc., since the original installation of these edits. The reason this item has been rated as minimal progress is because the recommendation of the auditors has been put on hold until later this fall to allow the auditors the time to perform a more in-depth review of the edits. The auditors did not want the Program to waste manpower performing this review until they had a better understanding of the significance of each bypassed edit.¹
2. MCPA has implemented the auditor's previous recommendations and is performing supervisory reviews of MCPA forced claims. As a result of the OLA follow up review, OLA has disclosed a "new" issue with DDA forced claims that had not been addressed in the original report. Since DDA keys the claims and the review decisions are made by DDA supervision, MCPA feels this issue should be addressed with DDA since MCPA has no control over these decisions. MCPA, however, has presented this issue to DDA and has been advised in May 2007 by DDA that an independent person reviews and approves forced claims "before" they are keyed into

Auditor's Comments:

¹The Office of Legislative Audits will be conducting a performance audit of MCPA's payment processes, including the edit functions. Regardless, MCPA is responsible for determining the appropriateness of bypassing edits and maintaining sufficient documentation to support its determinations.

the system. DDA has indicated the reviews are documented and retained. DDA feels that a “post” supervisory review is therefore not necessary.

3. MCPA has postponed the review of previously paid claims that were processed by automatically overriding or bypassing system edits as requested by OLA.² OLA has advised MCPA that a “performance audit” regarding system edits will be scheduled in the fall of 2007. In regards to the processing of future “special” MHA forced claims, MCPA will require that the letter from MHA requesting the removal of system edits include a statement certifying that a review was performed by MHA prior to the requested submission. It will be to MHA’s advantage to perform this pre-testing because if MCPA detects one error during its testing, the entire batch gets rejected and returned to MHA.
4. MCPA has completed its review of the approximately \$1 million in duplicate MHA charges and agrees the claims appear to be duplicates. MCPA met with MHA staff on June 4, 2007 to discuss the duplicate payments issue and has agreed to identify those Invoice Control Numbers (ICN’s) that are believed to be duplicates for MHA. This information will then be forwarded to MHA for their review. The documentation should be sent to MHA by July 20, 2007. Once MHA has reviewed the documentation and is in agreement, MHA will proceed with forwarding a void file to remove the duplicate transactions from the MMIS History file. The recovery of duplicate payments is the responsibility of MHA since MHA made the initial payment.

Auditor’s Comments:

² See auditor’s comments on previous page.

Prior Finding 5

MCPA lacked assurance that \$43 million in claims paid for emergency procedures for aliens in fiscal year 2005 were legitimate.

MCPA Response

1. As stated by the auditors, MCPA submitted proposed regulation changes to AELR and is awaiting a decision.
2. MCPA as stated by the auditors, has also modified the emergency approval letter, obtained signatures of medical professionals and retained the signed letters. MCPA will continue to utilize this process in lieu of retaining medical documentation.
3. MCPA is in the process of developing procedures and sampling techniques to compare claims paid to authorized emergency procedures.
4. MCPA has completed development and testing system changes that will edit emergency related services claims and deny payment based on authorized eligibility dates. Additional modifications were required to allow specific ICD-9 codes to pay for certain emergency services. Claims edits are scheduled to go into production on August 1, 2007. As a result, it is anticipated the change in undocumented alien expenditures will be reflected on the CMS 64 during the 2nd quarter of FY 08.

Recovery Procedures

Prior Finding 12

MCPA did not initiate appropriate actions when numerous hospitals denied MCPA's contractor access to claims records to conduct audits to identify overpayments resulting from third party recoveries.

MCPA Response

As requested by the auditors, MCPA sent out letters to all hospitals advising them that they would be subject to disciplinary action if they denied our audit contractors access to claim records. Unfortunately, MCPA's audit contractor failed to inform the Program of a scheduling issue with one provider. Once brought to the Program's attention, MCPA advised the hospital by phone and letter (faxed and mailed) that refusal to allow audit access would result in the suspension of Medical Assistance payments, effective May 15, 2007, and until such time as their cooperation in the audit process was confirmed. The hospital advised MCPA that the lack of response was an oversight traceable to a single individual and that there was no intent to avoid scheduling an audit.

On May 15, 2007, the hospital contacted MCPA to advise that full cooperation had been extended to the MCPA contractor and that an audit has been initiated. The hospital repeated assurances that there would be no re-occurrence of the access issue. The audit was successfully completed.

In an effort to avoid any future issues with the contractor's access to hospital claims records, OOEP is requiring the contractor to submit monthly reports addressing any audit access.

Information Systems Security and Control

Prior Finding 16

MCPA did not adequately restrict access to critical claims processing menu functions.

MCPA Response

The Director of Systems and Operations will appoint someone independent of the processes to review and document the access of Security Monitor's and DHMH Security Officers. In addition, MCPA will create a new report by August 1, 2007 that will identify anyone who has update capabilities to MMIS. The report will be distributed to Security Monitors and MCPA Directors. The Security Monitors will review the access of all employees assigned to them and document their findings.

Furthermore, MCPA will obtain from the Office of Personnel a copy of the DHMH Separation report bi-weekly. An independent employee within Systems & Operations will review the separation report and verify that the appropriate action has been or is taken for the individuals identified on the report.

MCPA has deleted or terminated the user ids identified in the audit report.

Prior Finding 17

MCPA did not have a current, comprehensive, and documented disaster recovery plan.

MCPA Response

MCPA has developed a comprehensive Information Technology Disaster Recovery Plan. The plan accounts for interrupted services at the Annapolis Data Center, which is where the MMIS application is housed. The OLA has recommended that MCPA address an alternative site in the event a disaster occurs at 201 W. Preston Street. Although MCPA acknowledges the need to have an alternative site, MCPA cannot designate an alternative site without the approval of the overall site IT manager. MCPA staff met with DHMH/IRMA staff June 22, 2007 to discuss alternative locations. The two locations proposed have their own drawbacks and are not within the recommended miles of the primary site. DHMH is working with the State of Maryland's CIO to determine a feasible site for our State agency. MCPA is unable to establish a projected completion date due to the involvement of the State of Maryland's CIO.

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