

DEPARTMENT OF HEALTH AND HOSPITALS
BATON ROUGE MAIN OFFICE OPERATIONS
STATE OF LOUISIANA



MANAGEMENT LETTER
DECEMBER 11, 2013

**LOUISIANA LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

**FIRST ASSISTANT LEGISLATIVE AUDITOR
AND STATE AUDIT SERVICES**
PAUL E. PENDAS, CPA

DIRECTOR OF FINANCIAL AUDIT
THOMAS H. COLE, CPA

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report is available for public inspection at the Baton Rouge office of the Louisiana Legislative Auditor.

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LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 2, 2013

**DEPARTMENT OF HEALTH AND HOSPITALS
BATON ROUGE MAIN OFFICE OPERATIONS
STATE OF LOUISIANA**
Baton Rouge, Louisiana

As required by Louisiana Revised Statute 24:513 and as a part of our audit of the State of Louisiana's financial statements and the Single Audit of the State of Louisiana for the fiscal year ended June 30, 2013, we conducted certain procedures at the Department of Health and Hospitals (DHH) for the period from July 1, 2012, through June 30, 2013.

- Our auditors obtained and documented an understanding of DHH operations and system of internal controls, including controls over major federal award programs administered by DHH, through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to DHH.
- Our auditors performed analytical procedures consisting of a comparison of the most current and prior year financial activity using DHH's annual fiscal reports and/or system-generated reports and obtained explanations from management of any significant variances.
- Our auditors reviewed the status of the findings identified in the prior management letter, dated January 14, 2013. The prior year finding relating to improper payments to case management services provider has been resolved by management. The findings relating to improper payments to non-emergency medical transportation service provider, improper payments to waiver services provider, and an ineffective internal audit function have not been resolved and are addressed again in this letter.
- Our auditors considered internal control over financial reporting and examined evidence supporting DHH's nonpayroll expenditures, federal revenue, Medicaid current and non-current accruals, and critical information systems and related user access controls. We also tested DHH's compliance with laws and regulations that could have a direct and material effect on the State of Louisiana's financial statements, as part of our audit of the state's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2013, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2013, as a part of the Single Audit for the State of Louisiana:
 - Medicaid Cluster (CFDA 93.720, 93.775, 93.777, 93.778)
 - State Children's Insurance Program (CFDA 93.767)

The Annual Fiscal Reports of DHH were not audited or reviewed by us, and, accordingly, we do not express an opinion on those reports. DHH's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.

Based on the application of the procedures referred to previously, we have included all significant findings in this letter for management's consideration. All of the findings, except the findings on an ineffective internal audit function and noncompliance with Executive Order BJ 2011-5, will also be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2013.

Noncompliance with Medicaid Regulations for an External Quality Review - Louisiana Behavioral Health Partnership Contractor

DHH failed to obtain an external quality review report on the privatized state management organization for the Louisiana Behavioral Health Partnership as required by Medicaid regulations and the DHH Medicaid state plan. As of September 6, 2013, Magellan has operated as a Medicaid managed care prepaid inpatient health plan for 18 months with no external quality review obtained by DHH.

An external quality review is the analysis and evaluation of aggregated information on quality, timeliness, and access to health care services that a prepaid inpatient health plan furnishes to Medicaid beneficiaries. The lack of the annual external quality review report impairs DHH's ability to determine if Magellan complied with Medicaid managed care regulations. In addition, since Magellan is a private company and not audited by us, our ability to determine compliance with Medicaid regulations is impaired.

DHH pays per-member, per-month payments to Magellan for all enrolled recipients. Magellan then coordinates the care for Medicaid recipients and pays Medicaid claims to the health care provider. The Magellan contract totals \$362,893,060 for two years and expires February 28, 2014. DHH paid \$123,996,275 in per-member, per-month payments and fees and \$86,564,969 for services to Magellan in 2012.

DHH has relied on the performance of Magellan without externally monitoring that performance. Failure to obtain the external quality review report increases the risk that procedures and controls are not being applied in accordance with program intentions and regulations, which could result in errors and federal disallowances.

DHH management should obtain the external quality review report on Magellan as required by Medicaid regulations and the DHH Medicaid state plan to ensure that all managed care regulations and contract requirements are met. Management concurred in part with the finding noting a different interpretation of the timeline for the external quality review report (see Appendix A, page 1).

Additional Comments: As of October 28, 2013, we have not received a signed contract for the external quality review services. Without a contract as of this date, it is possible that DHH will not have a completed external quality review before the Magellan contract ends on February 28, 2014. DHH will have allowed the program to operate for the entire two-year period without independent verification that Magellan has substantially complied with Medicaid regulations, state regulations, and contract requirements. Also, since no new request for proposal has been issued to select a new state management organization, the Magellan contract could be extended for one more year before DHH can fully assess Magellan's compliance with all regulations and contract requirements through an external quality review report.

Misappropriation of Public Funds

The Legislative Auditor's Investigative Audit Services issued a report on June 6, 2013, identifying \$1,058,446 of public funds that were diverted for private use by former DHH Fiscal Director Debbie Loper, who resigned on February 15, 2013.

On February 22, 2013, Ms. Loper's attorney informed DHH management of a private Capital One bank account that was controlled by Ms. Loper in which DHH funds may have been diverted. The account was frozen by Capital One on February 19, 2013. The Legislative Auditor was notified on March 1, 2013, and began a concurrent investigation with the Louisiana Inspector General, the Louisiana Attorney General, the Federal Bureau of Investigation, and the United States Department of Health and Human Services - Office of the Inspector General.

In the investigative audit report, the auditors noted the following:

- From March 2007 to February 2013, a period of six years, Ms. Loper diverted at least 167 checks issued to DHH totaling \$1,058,446 to a private bank account. DHH's lack of adequate internal controls over incoming mail and funds transfers appears to have allowed Ms. Loper to divert these checks to a private bank account without detection.
- Ms. Loper used the funds she diverted to make personal cash withdrawals and purchases. These personal transactions were not authorized by DHH and had no legitimate public purpose. By diverting public funds for personal purposes, Ms. Loper may have violated state and federal laws.

Of the \$1,058,446 funds questioned, \$416,255 was federal funds from the Medical Assistance Program (Medicaid, CFDA 93.778). DHH refunded the federal government \$416,255 through the June 30, 2013, federal quarterly report. The full investigative audit

report is available in the Audit Report Library on the Legislative Auditor's website at www.lla.la.gov.

Management should follow the recommendations outlined in the Legislative Auditor's investigative audit report including those relating to consultation with legal counsel and the implementation of control policies and procedures over cash. Management concurred with the finding and outlined a plan of corrective action. The department has initiated civil proceedings against the employee and the bank that accepted the misappropriated funds (see Appendix A, pages 2-3).

Ineffective Internal Audit Function

For the third consecutive year, DHH did not have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that are necessary to maintain adequate controls. At the end of fiscal year 2013, the department did not have an approved audit charter, risk assessment, or audit plan. No internal audit reports were issued during the fiscal year.

During fiscal year 2011, DHH eliminated the internal audit function. While DHH contracted for internal audit services during part of fiscal year 2012, the contractor submitted only one audit report. In May 2013, the department hired a Chief Compliance Officer/Inspector General who is tasked with devising an internal audit plan for the department and fulfilling the plan using internal staff and contracts with outside firms specializing in internal audit.

Act 13 of the 2012 Regular Session of the Louisiana Legislature requires agencies with budgets in excess of \$30 million to use its existing table of organization for positions that perform the function of internal auditing. Considering DHH's reported assets (\$517,722,680) and revenues (\$7,226,242,477), an effective internal audit function is important to ensure that DHH's assets are safeguarded and that management's policies and procedures are uniformly applied.

DHH management should take the necessary steps to ensure that the internal audit function is adequately staffed and operating in an effective manner to provide assurance that assets are safeguarded and that management's policies and procedures are applied in accordance with management's intentions. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 4).

Improper Payments to Waiver Services Provider

For the second consecutive year, DHH paid New Opportunities Waiver (NOW) claims under Medicaid totaling \$16,217 (\$10,624 federal funds and \$5,593 state match) for waiver services that were not documented in accordance with established policies, which we consider to be questioned costs. The NOW is administered by the DHH Office for

Citizens with Developmental Disabilities. Improper payments for waiver services have been reported in 11 of the last 14 audits totaling \$564,365.

In a test including 348 claims totaling \$73,065 paid to three providers, we noted errors on 11 claims paid to one provider. Some claims included multiple errors. The errors noted included the following:

- For 10 of the 11 claims, appropriate units of service were not delivered according to the plan of care approved by DHH. The plan of care specifies the units of service to be provided daily. The recipient record did not contain documentation as to why the services were not provided according to the plan of care. Waiver regulations include providing services consistent with the approved comprehensive plan of care. All deviations from the plan should be documented.
- For nine of the 11 claims, the provider did not maintain adequate time sheets and/or progress notes to support the units of services billed. Providers are required to maintain adequate documentation to support services provided and billed.

These conditions occurred because DHH paid waiver services claims even though the waiver services provider failed to follow established DHH policies and federal regulations for providing services. Regulations and requirements for the delivery of services and payment of claims for the waiver program are established through administrative rules and policy manuals developed by DHH.

DHH management should ensure that all departmental policies and federal regulations are enforced and that only appropriate claims for waiver services are paid to providers. Management concurred in part with the finding noting that while there may have been documentation errors by direct support staff, this did not reach the level of improper payments. Management also noted that the plan of care contains the Typical Weekly Schedule, which states that the schedule is for planning purposes only (see Appendix A, pages 5-6).

Additional Comments: According to DHH's *NOW Provider Manual*, section 32.8, any deviation from the approved plan of care must be documented in the progress notes including why services were not delivered. In addition, DHH's *NOW Guidelines for Support Planning*, section 5.4, states:

Any deviation from the typical or alternate schedule requires documentation by the service provider. Failure to adequately document changes in the individually approved schedule may result in denied billing or recoupment of Medicaid funds.

Based on DHH's own policies, the failure to document deviations from the plan of care necessitates that the related cost be questioned.

Management also noted that the plan of care contains the Typical Weekly Schedule, which states the schedule is for planning purposes only. The Section IX (A) Budget Schedule of the Plan of Care contains a typical weekly schedule and other information. Once the Budget Schedule is approved, the services noted on the typical weekly schedule are required making the schedule no longer just a planning document.

In the Plan of Correction paragraph, DHH stated that it will update the NOW manual policy to reflect flexibility in an individual's Comprehensive Plan of Care. Our understanding is that this update would include additional flexibility for the provider regarding the hours documented in the approved plan of care. This flexibility may weaken controls over the program allowing excess or unused hours of care that could better be used to expand services to other needy individuals on the waiting list.

Noncompliance with Executive Order BJ 2011-05

The Coordinated System of Care (CSoC) Governance Board, established within DHH, failed to execute a memorandum of understanding (MOU) for fiscal year 2013 with the Office of Juvenile Justice, the Department of Children and Family Services, and the Department of Education, as required by Executive Order BJ 2011-05, to establish responsibilities and provide funding for the CSoC. CSoC is a cross-departmental project to organize a coordinated network of services for Louisiana's at-risk children and youth with significant behavioral health challenges or related disorders. DHH is designated as the managing agency for the program.

Since the MOU was not completed, mutual responsibilities and obligations of the participating agencies were not defined increasing the risk of inadequate funding and program oversight. The fiscal year 2012 MOU required a total of \$8,802,159 to be redirected to DHH from the participating agencies. DHH collected a total of \$5,575,881 in fiscal year 2012. In fiscal year 2013 without a MOU, only \$344,894 was collected.

Executive Order BJ 2011-05, section 7, authorizes and directs all departments to cooperate with the CSoC Governance Board in implementing and maintaining the provisions of the order including the execution of MOUs and the redirection of the designated funding of the agencies involved to finance the CSoC, a component of the Louisiana Behavioral Health Partnership.

As the managing agency, DHH should ensure that all requirements of the executive order are fulfilled and that all MOUs are executed so that program requirements including funding can be met. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 7).

Inadequate Controls over Drug Rebate Collections

DHH did not make sufficient effort to collect federal and state supplemental drug rebates as required by federal guidelines and department policy. Collection letters for the quarter

ending September 30, 2012, were mailed after the letters were requested by the auditors and not by the required dates resulting in a less timely collection of funds.

We reviewed 30 invoices totaling \$5,292,067 for the quarter ending September 30, 2012, where the invoices had not been paid within 30 days. The following was identified:

- For 22 of 30 invoices (73%) totaling \$4,408,436, collection letters were not sent to the manufacturers by required dates. Twenty invoices were for federal rebates with collection letters required by January 15, 2013, and two invoices were for supplemental rebates with collection letters required by January 30, 2013.
- For eight of the 22 invoices noted above, collection letters were still not sent as of March 12, 2013. The total outstanding amount for the eight invoices was \$20,218.

These conditions occurred because DHH personnel failed to follow established guidelines and policies for collection of delinquent rebate amounts, and DHH did not have a control procedure to identify if the collection letters were sent.

To ensure that state Medicaid programs pay the lowest price for prescription drugs, each manufacturer signs a federal rebate agreement with the Centers for Medicare and Medicaid Services. The state also negotiates some additional supplemental rebates from manufacturers. Based on the agreements and state utilization data, DHH invoices the manufacturers each month for the appropriate rebate amount. If the rebate is not paid within 30 days, DHH is required to make efforts to collect the rebates. The Louisiana Medicaid Pharmacy Benefits Management Section administers the Medicaid pharmacy program within DHH. According to its policies, if rebates are not paid by the due date, DHH should send collection letters to manufacturers within 45 days from the invoice date for the federal rebates and 60 days for supplemental rebates.

DHH management should establish, implement, and enforce controls to ensure its personnel mail collection letters according to federal guidelines and department policy to expedite the collection of rebates owed to DHH. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 8).

Improper Payments to Non-Emergency Medical Transportation Services Providers

DHH paid claims totaling \$12,956 (\$8,488 federal funds and \$4,468 state match) to providers of Non-Emergency Medical Transportation (NEMT) for services billed to Medicaid that were not provided in accordance with established policies, which we consider questioned costs for which the state may be liable. This is the sixth consecutive year we have reported improper NEMT payments.

NEMT is defined as transportation for Medicaid recipients to and/or from a provider of Medicaid covered services. The NEMT program's *Provider Manual* requires that

providers maintain copies of all Recipient Verification of Medical Transportation Forms (Form MT-3), Driver Information Forms (Form MT-8), and Vehicle Inspection Forms (Form MT-9), and a daily schedule of transports.

A review of 119 claims totaling \$12,956 paid to two providers during calendar year 2012 identified the following errors:

- For 77 (65%) claims tested, the providers did not maintain adequate documentation of the trips provided. The providers could not provide completed copies of the MT-3s to substantiate all trips provided under capitated (monthly) and/or single trip rates.
- Both providers reviewed did not maintain an adequate daily schedule of transports in the records and were also unable to provide all MT-8 and MT-9 forms to verify drivers and vehicles used. Without reliable daily schedules of transports and proper documentation, we were unable to determine the number of vehicles and drivers used and whether the providers were using appropriately inspected vehicles and licensed drivers.

These conditions occurred because the NEMT providers failed to follow established DHH Bureau of Health Services Financing policies and regulations for providing services and adequately documenting those services, and DHH controls were inadequate in detecting these exceptions.

DHH management should ensure that all NEMT rules and regulations are enforced, including those regarding daily schedule of transports, and that only appropriate claims are paid to providers. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 9).

Noncompliance with Approved Consolidated Cost Allocation Plan

DHH made significant changes to its Cost Allocation Plan during fiscal year 2013 but failed to submit a new plan or current plan amendments for approval as required by federal regulations. As a result, DHH did not follow an approved cost allocation plan for administrative expenditures in the current year. Use of an unapproved plan increases the risk that federal programs' administrative costs will be disallowed. DHH's allocated administrative costs for fiscal year 2013 totaled \$100,476,125.

DHH's current cost allocation plan was approved in 2011 with two subsequent amendments. The approved plan should be used until one of the following occurs to make the plan outdated: organizational changes within the agency, legislative or regulatory changes, or amendments to the overall state plan for public assistance programs. DHH experienced the following significant organizational changes that resulted in changes to the plan, but the amendments were never submitted or approved:

- Privatizing Medicaid with the Bayou Health Program

- Privatizing behavioral health services with the Louisiana Behavioral Health Partnership
- Moving the Health Standards and Program Integrity sections from Medicaid Vendor Administration, Agency 305, to the Office of the Secretary, Agency 307
- Adding the new Acadiana Human Services District

DHH serves as the single state Medicaid agency responsible for administering the Medicaid and the Children's Health Insurance (LaChip) programs and is required to prepare a public assistance cost allocation plan to support claims for administrative expenses. The cost allocation plan is a description of the procedures that DHH will use in identifying, measuring, and allocating all costs incurred in support of all programs administered or supervised by DHH. DHH failed to follow federal requirements regarding proper approval of cost allocations.

DHH management should submit a new cost allocation plan or amendments to the current plan for required approval. Management should also determine if the unapproved allocations used resulted in overcharging federal programs for administrative expenses. If federal programs were overcharged, management should take corrective action. If undercharged, management should seek to recover the unallocated costs. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 10).

Lack of Controls over Federal Cash Management Requirements

DHH did not have sufficient controls established to ensure federal cash management requirements were followed, including compliance with the Treasury State Agreement. This agreement defines the terms for the transfer of financial assistance funds between the federal government and the state to avoid an overdraw or underdraw of grant funds. Overdrawn grants put the state at risk for federal disallowances for which the state may be liable. Underdrawn grants indicate that the state funded expenditures using the state general fund when federal funds could have been used instead.

At DHH, the Medicaid and LaChip programs are included in the agreement. Our testing identified the following:

- DHH did not draw federal funds for payments to a private contractor, Magellan, based on appropriate documentation. Magellan is the contracted State Management Organization for the LA Behavioral Health Partnership. DHH drew federal funds based on check registers provided by Magellan while the actual payments made to Magellan were based on other Magellan data as specified in the contract. We noted 17 draws during the fiscal year exceeding appropriate documentation by more than \$10,000. Unsupported draws put the agency at risk for federal disallowance for which the state may be liable.

- For two of four Medicaid benefits draws tested, DHH did not include all expenditures eligible for federal reimbursement resulting in the underdraw of federal funds.
- For both administrative and payroll draws tested, DHH did not comply with the funding technique noted in the agreement resulting in the underdraw and/or overdraw of Medicaid and LaChip funds.
- DHH did not follow the appropriate clearance pattern for a draw requested on a state holiday. Noncompliance with clearance patterns puts the state at risk for interest liabilities.
- DHH should have made adjustments to correct inaccurate draws like the ones mentioned above through the quarterly reconciliation process. However, DHH did not consistently perform the reconciliation of the federal draws made during the quarters to the federal quarterly expenditure report. We noted two quarters where the agency compiled a reconciliation, but failed to make the corresponding adjusting draws to either refund overdrawn federal dollars or draw additional federal funds when underdraws occurred.

As of September 27, 2013, the reconciliation and adjustment for the quarter ended June 30, 2013, has not been performed by DHH. Without this reconciliation, we are unable to determine if the state has overdrawn or underdrawn federal funds at the end of the fiscal year.

- DHH did not submit properly completed interest schedules to the Office of Statewide Reporting and Accounting Policy (OSRAP) as required. The schedules submitted did not apply federally approved interest rates, did not include disbursement dates for proper interest calculation, and did not include interest calculations on draws where interest was applicable. Without accurate and complete interest schedules from state agencies, OSRAP is unable to accurately calculate the state's interest liability and prepare an annual report to the federal government.

DHH must schedule the draw of federal funds so that funds are received and disbursed by DHH in accordance with methods and time frames noted in the agreement known as clearance patterns. Draws should also be supported and follow funding techniques noted in the agreement.

DHH should ensure that draws of federal funds are properly calculated, supported, and follow federal cash management requirements, including compliance with the Treasury State Agreement. In addition, DHH should follow OSRAP's guidelines for reporting disbursement and drawdown information. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, page 11).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DHH. The nature of the recommendations, their implementation costs, and their potential impact on the operations of DHH should be considered in reaching decisions on courses of action. The findings relating to DHH's compliance with applicable laws and regulations should be addressed immediately by management.

The Louisiana Legislative Auditor issued a report on August 14, 2013, that provided information on the implementation and transition issues for the Louisiana Behavioral Health Partnership as experienced by four human services districts/authorities: Capital Area Human Services District, South Central Louisiana Human Services Authority, Metropolitan Human Services District, and Florida Parishes Human Services Authority. In addition, the Performance Audit Services section of the Louisiana Legislative Auditor issued a report on October 30, 2013, noting that DHH paid approximately \$1.85 million in participant fees for 1,727 deceased individuals in the Louisiana Behavioral Health Partnership and Bayou Health privatized programs between February 1, 2012, and June 30, 2013. The full reports are available in the Audit Report Library on the Legislative Auditor's website at www.la.la.gov.

The purpose of this letter is solely to describe the scope of our work at DHH and not to provide an opinion on the effectiveness of DHH's internal control over financial reporting or on compliance. Accordingly, this letter is not intended to be and should not be used for any other purpose. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,



Daryl G. Purpera, CPA, CFE
Legislative Auditor

AHC:WDG:EFS:THC:ch

DHH13

APPENDIX A

Management's Corrective Action Plans and Responses to the Findings and Recommendations



Bobby Jindal
GOVERNOR

Kathy H. Kliebert
SECRETARY

State of Louisiana
Department of Health and Hospitals
Office of Behavioral Health

October 17, 2013

Mr. Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

Dear Mr. Purpera,

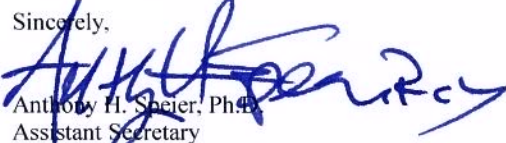
Thank you for the opportunity to respond to your finding of **Noncompliance with Medicaid Regulations for an External Quality Review – Louisiana Behavioral Health Partnership Contractor**. The Louisiana Behavioral Health Partnership (LBHP) was implemented on March 1, 2012, and is a unique approach to behavioral health managed care. In response to the finding presented, the Office of Behavioral Health (OBH) offers the following response:

1. OBH concurs with the Legislative Auditor's (LLA) findings that no EQR has been completed.
2. OBH does not concur with the LLA's interpretation of the timeline regarding the CMS requirement for an annual EQR reporting.
 - OBH interprets the Centers for Medicare and Medicaid Services (CMS) rule as requiring the first official External Quality Review (EQR) technical report within the second year after implementation. Consequently, OBH does not concur with the Auditor's interpretation of the timeline regarding the CMS requirement for annual EQR reporting. OBH's interpretation is based on State plan amendment language necessitating a 12 month benchmark be established in regard to performance measures.
3. OBH has completed the Request for Proposal (RFP) process and selected a vendor to provide the EQR services.
 - In anticipation of the upcoming EQR requirement, OBH issued a Request for Proposal (RFP) on February 11, 2013, with proposal reviews taking place in May of 2013. Please see the enclosed letter dated July 30, 2013, awarding the EQR function to Island Peer Review Organization (IPRO). Contract negotiations between IPRO and the state are currently in process.
 - The EQR focuses on the review of three mandatory protocols: compliance, performance measures, and performance improvement projects. The first protocol for reviewing compliance with federal, state and contract requirements has been documented. After consultation with IPRO regarding this audit finding, IPRO confirmed it could not begin the second protocol until after a twelve month benchmark had been established. The third protocol could not have been completed within the first twelve months since Magellan's contractual deadline to complete the performance improvement project review report was due and submitted on July 31, 2013.

OBH concurs that a comprehensive EQR report has not been completed. Based on the information provided, OBH does not concur that this finding constitutes non-compliance with Medicaid regulations for an EQR.

Thank you for your consideration and attention to this matter. Should you have any subsequent questions, please do not hesitate to contact Karen Stubbs in my office at 225.342.7601.

Sincerely,


Anthony H. Speier, PhD
Assistant Secretary

Cc: Kathy Kliebert, Secretary
Courtney Phillips, Deputy Secretary
William Root, Chief Compliance Officer

Enclosure [1]

AS/jk



State of Louisiana
Department of Health and Hospitals
Office of the Secretary

October 10, 2013

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Investigative Audit – Fiscal Director

Dear Mr. Purpera,

The Department of Health and Hospitals (DHH) concurs with the recommendations relative to the investigative audit of the former DHH Fiscal Director.

Management recognizes its responsibility to establish internal controls regarding financial transactions of DHH. In response to the recommendations in the referenced audit report, management has taken the following actions.

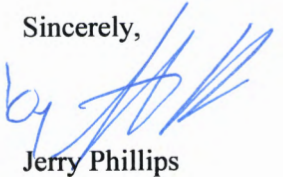
- A process has been implemented for certain checks to be received directly at secure bank lockboxes, thereby reducing paper checks received at DHH offices. The checks are recorded by the bank and deposited by the bank.
- The Division of Fiscal Management has implemented controls over the processing of incoming mail that includes recording checks received on a check log and restrictively endorsing the checks when they are first received.
- A new policy has been developed that addresses the proper receipting and safeguarding of checks. All employees will be trained on the new policy.
- Staff has also contacted Molina to notify providers of the requirement to submit proper documentation with any checks that are submitted to DHH.

These procedures are expected to address the internal control weaknesses which were cited in your report

DHH has initiated civil proceedings against the employee involved and the bank that accepted the misappropriated funds. Finally, DHH has hired Mr. William Root as the Chief Compliance Officer. Mr. Root is responsible for assessing risk at DHH offices and developing an appropriate audit plan to review and mitigate areas of high risk.

DHH management is confident that these actions will address the recommendations submitted by your office. If you have any questions or need additional information, please contact Pam Diez, Director of Fiscal Management at 225-342-1483.

Sincerely,



Jerry Phillips
Undersecretary

c: Kathy H. Kliebert, Secretary
Pam Diez, Director of Fiscal Management
Bill Root, Chief Compliance Officer



State of Louisiana

Department of Health and Hospitals
Office of the Secretary

October 7, 2013

Mr. Daryl G. Purpera, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Finding - Department of Health and Hospitals (DHH) – Ineffective Internal Audit Function

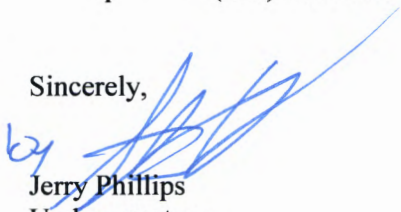
Dear Mr. Purpera:

This letter will serve as response to your office's finding regarding an "Ineffective Internal Audit Function" for DHH in FY 2013. The Department concurs that DHH did not have an internal audit function during FY 2013 and should have an effective internal audit function to examine, evaluate, and report on its internal controls, including information systems, and to evaluate compliance with the policies and procedures that are necessary to maintain adequate controls.

As stated in your recommendation, DHH hired a Chief Compliance Officer/Inspector General in May 2013. The Inspector General reports directly to the DHH Secretary, and is tasked with creating an internal audit plan for the department. As of August 2013, an approved internal audit charter for DHH has been completed and an Internal Audit Section has been created and staffed with certified internal auditors. A formal risk assessment process began in August 2013 based on input from DHH management and an audit plan will ultimately be developed from this risk assessment. This audit plan will include audits to assess internal controls and evaluate internal compliance with DHH policies and procedures.

This Section may be expanded in the future as business needs and auditing opportunities within the Department warrant. In addition, in order to carry out certain internal audit and compliance functions, the Inspector General may enter into and monitor a contract with an outside firm specializing in internal audit. The contact person for follow-up on this finding shall be William Root, Chief Compliance Officer/Inspector General. He can be reached via email at William.Root@la.gov or via phone at (225) 342-2534.

Sincerely,


Jerry Phillips
Undersecretary



State of Louisiana

Department of Health and Hospitals
Office for Citizens with Developmental Disabilities

October 17, 2013

Mr. Daryl Purpera, CPA, CFE
Louisianan Legislative Auditor
P.O. Box 94397
Baton Rouge, La. 70808-9397

Dear Mr. Purpera:

Thank you for the opportunity to respond to your finding of **Improper Payments to Waiver Services Providers**. In response to the findings presented, the Office for Citizens with Developmental Disabilities (OCDD) offers the response:

1. OCDD concurs in part to the Legislative Auditor's finding of **Improper Payments to Waiver Services Providers**.

1a. Legislative Auditor Finding:

The report states that appropriate units of service were not delivered according to the plan of care approved by DHH. The plan of care specifies the units of service to be provided daily. The recipient record did not contain documentation as to why the services were not provided according to the plan of care. Waiver regulations include providing services consistent with the approved comprehensive plan of care. All deviations from the plan should be documented.

OCDD Response: OCDD DOES NOT CONCUR TO THIS PART OF THE FINDING

While provider direct support staff are supposed to report changes in an individuals' typical daily schedule or any changes in hours worked, an individuals' comprehensive plan of care (CPOC) contains the **Typical Weekly Schedule**, which states that the schedule is for **planning purposes only**. While there may have been documentation errors by direct support staff when an individuals' schedule changed, OCDD maintains that this does not reach the level of Improper Payments to Service Providers. There were no overpayments paid to the provider and they were within the prior authorizations for their work. OCDD will update the New Opportunities Manual to reflect flexibility in an individuals' daily/weekly schedule.

1b. Legislative Auditor Finding:

The report states the provider did not maintain adequate time sheets and/or progress notes to support the units of services billed. Providers are required to maintain adequate documentation to support services provided and billed.

OCDD Response: OCDD concurs with this part of the finding

In some cases, the provider had missing timesheets and/or progress notes.

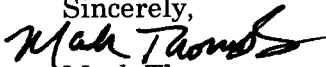
OCDD PLAN OF CORRECTION:

Providers will be retrained on the importance of accurate record keeping (documentation of progress notes, timesheets, and schedule changes). OCDD will update the current New Opportunities Manual to reflect flexibility in an individuals' Comprehensive Plan of Care. This will be completed by March 1st, 2014.

In summary, OCDD concurs in part to the finding of **Improper Payments to Providers**. We believe that there are training areas that still need to be addressed with provider agencies (documentation of changes in a recipient's schedule) and continued training and oversight by providers to their direct support staff on proper time sheet/documentation.

Thank you for allowing OCDD to respond. Should you have any questions, please feel free to contact Paul Rhorer in my office at 225-342-8804.

Sincerely,



Mark Thomas

Interim Assistant Secretary

cc: Paul Rhorer
William Root
Michael Breland



State of Louisiana
Department of Health and Hospitals
Office of Management and Finance

October 23, 2013

Daryl G. Purpera, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Noncompliance with Executive Order BJ 2011-05

Dear Mr. Purpera:

The Department of Health and Hospitals concurs with the referenced finding.

In State Fiscal Year 2014, the Department of Health and Hospitals will work with the Coordinated System of Care (CSoc) Governance Board to ensure that the memorandum of understanding (MOU) between the Department of Health and Hospitals, the Office of Juvenile Justice, the Department of Children and Family Services and the Department of Education for the Coordinated System of Care program is executed in accordance with Executive Order BJ 2011-05.

If you have any questions or need any additional information, please contact Mr. Jeff Reynolds at (225) 342-6043.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jerry Phillips".

Jerry Phillips
Undersecretary

JP/jr

c William Root, Chief Compliance Officer



State of Louisiana

Department of Health and Hospitals Office of Management and Finance

October 11, 2013

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
1600 North Third Street
P.O. Box 94397
Baton Rouge, LA 70804-9397

RE: Inadequate Controls over Drug Rebate Collections

Dear Mr. Purpera:

The Department of Health and Hospitals (DHH) has reviewed your office's finding titled "Inadequate Controls over Drug Rebate Collections" and we concur with the finding. The Department agrees that the 2012 third quarter drug rebate "late letters" were not sent in accordance with DHH policies and were not sent until March 12, 2013.

This delay in the issuance of the "late letters" was due to significant staff turnover in our Pharmacy section which resulted in the responsibility for sending out the "late letters" being overlooked.

As of this date, the Pharmacy Rebate Program has implemented new internal controls where the responsibility for the issuance of these letters is coordinated between DHH's Rebate Supervisor and the UNO Assistant Director over Drug Rebate.

While it is undisputed that the "late letters" were not sent timely as they should have been, we would like to note that the entirety of the Federal amount invoiced for 2012q3 has been collected.

If you have any questions about this matter, please contact Rebecca Hebert at Rebecca.Hebert@LA.GOV or 225-342-5194.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jerry Phillips".

Jerry Phillips
Undersecretary

c: Kathy H. Kliebert, Secretary
W. Jeff Reynolds, Deputy Medicaid Director



State of Louisiana

Department of Health and Hospitals
Office of Management and Finance

October 7, 2013

Daryl G. Purpera, CPA, CFE
Legislative Auditor
P.O. Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Improper Payments to Non-Emergency Medical Transportation Service Providers

Dear Mr. Purpera:

The Department of Health and Hospitals concurs with the referenced finding.

In State Fiscal Year 2014, the Department of Health and Hospitals will continue to work with Non-Emergency Medical Transportation (NEMT) providers to ensure that all NEMT rules and regulations are enforced.

If you have any questions or need any additional information, please contact Mr. Jode Burkett at (225) 342-2094.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Jeff Reynolds".

W. Jeff Reynolds, Deputy Medicaid Director

JR/jr

c Ruth Kennedy, Medicaid Director
William Root, Chief Compliance Officer



State of Louisiana
Department of Health and Hospitals
Office of the Secretary

October 17, 2013

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Noncompliance with Approved Consolidated Cost Allocation Plan

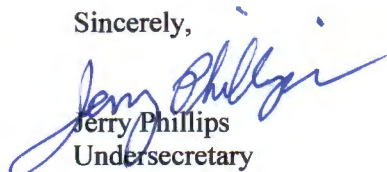
Dear Mr. Purpera,

Management of the Department of Health and Hospitals (DHH) concurs with the finding relative to noncompliance with approved consolidated cost allocation plan.

The former Director of Fiscal Management prepared an amendment to the DHH approved cost allocation plan and updated the internal cost allocation process to reflect the proposed amendment. Unfortunately, the Director did not submit the plan to the appropriate federal agency for approval as required by federal regulations.

The proposed amendment was submitted for review and approval on Monday September, 30, 2013 with a requested effective date of July 1, 2012. For future revisions, changes to the internal cost allocation process will not be implemented until after the request for approval has been submitted. Pam Diez, Director of Fiscal Management, is responsible for ensuring that the approved cost allocation plan is followed and any required revisions are submitted for approval on a timely basis. If you have any questions or need additional information, please contact Pam Diez, Director of Fiscal Management at 225-342-1483.

Sincerely,


Jerry Phillips
Undersecretary

c: Kathy Kliebert, Secretary
Pam Diez, Director of Fiscal Management

Bobby Jindal
GOVERNOR



Kathy Kliebert
SECRETARY

State of Louisiana
Department of Health and Hospitals
Office of the Secretary

October 25, 2013

Daryl G. Purpera, CPA, CFE
Louisiana Legislative Auditor
Post Office Box 94397
P.O. Box 94397
Baton Rouge, LA 70804-9397

Re: Lack of Controls over Federal Cash Management Requirements

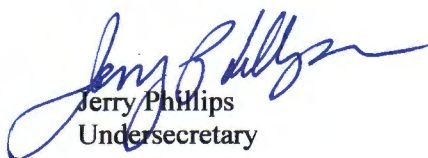
Dear Mr. Purpera,

Management of the Department of Health and Hospitals (DHH) concurs with the finding relative to lack of controls over federal cash management requirements.

Fiscal management staff have implemented changes in the review and approval process for calculating and drawing down federal funds. The process for reconciliation of the Medicaid draws will follow the method used by the Centers for Medicare Services (CMS). Finally, the interest schedules have been updated and undergo a second level review before submission to the Office of Statewide Reporting and Accounting Policy (OSRAP).

DHH management is confident that these actions will address the issues identified by your office. Ms. Pam Diez, Director of Fiscal Management is responsible for the corrective actions which have already been implemented. If you have any questions or need additional information, please contact Ms. Diez at 225.342.8222.

Sincerely,


Jerry Phillips
Undersecretary

c: Kathy Kliebert, Secretary
Pam Diez, Director of Fiscal Management