Louisiana Department of Health
State of Louisiana

Financial Audit Services
Management Letter
Issued January 25, 2017

LOUISIANA LEGISLATIVE AUDITOR
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Louisiana Legislative Auditor

Daryl G. Purpera, CPA, CFE

Louisiana Department of Health

January 2017 *Audit Control # 80160078*

Introduction

As a part of our audit of the State of Louisiana's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2016, we performed procedures at the Louisiana Department of Health (LDH), including the Office of Public Health (OPH), to provide assurances on financial information that is significant to the State of Louisiana's financial statements, and to evaluate the effectiveness of LDH's internal controls over financial reporting. In addition, we determined whether management has taken actions to correct findings reported in the prior year.

LDH is the largest department in Louisiana state government and administers an array of health programs to Louisiana residents. The mission of LDH is to protect and promote health and to ensure access to medical, preventive, and rehabilitative services for all citizens of the State of Louisiana.

Results of Our Procedures

Follow-up on Prior-year Findings

Our auditors reviewed the status of the prior-year findings reported in a management letter dated December 21, 2015. We determined that management has resolved the prior-year findings related to improper uncompensated care payments to two hospitals, inadequate controls to monitor timely filing and prompt payment of Medicaid claims, noncompliance with Medicaid regulations for external quality review reports – Louisiana Behavioral Health Partnership, inadequate controls over non-emergency medical transportation services, inadequate monitoring of required medical loss ratio reporting, inaccurate annual fiscal report, inadequate monitoring of vaccines, and lack of controls over federal cash management requirements. The findings relating to noncompliance with third-party liability requirements, inadequate controls over quarterly federal expenditure reporting, noncompliance with vendor monitoring and cost containment requirements, improper payments to waiver services providers, inadequate controls over reporting of subrecipients, and inadequate monitoring of subrecipient audits have not been resolved and are addressed again in this letter.

Current-year Findings

Noncompliance with Third-Party Liability Requirements

For the second consecutive year, LDH failed to maintain required processes that identify and recover paid claims where a third party is liable to pay for medical services provided for a Medicaid-eligible recipient. In addition, for at least eight months of fiscal year 2016, LDH did not establish alternate procedures to pursue and recover previously identified instances of third-party liability (TPL) that the department continued to report at more than $29 million.

LDH maintained a contract with Health Management Systems (HMS) for identification and collection of TPL on previously paid claims through December 31, 2014. Upon expiration, LDH did not renew the contract, contract with another vendor, or establish internal processes to identify and recover TPL. LDH entered into an emergency contract with HMS for $2,175,000 on March 1, 2016, to recover claim payments from liable third parties for service dates from January 2015 through September 2015. In May 2016, LDH awarded a new contract for TPL identification and collection to HMS, with an effective date of July 1, 2016. However, as of October 20, 2016, LDH and HMS had not fully executed the contract.

LDH did not establish any new TPL receivable amounts for fiscal year 2016 financial reporting due to unsupported documentation from its contractor. While HMS estimated approximately $42 million in TPL at the end of the fiscal year, LDH did not have adequate support for this amount and continued to report the $29 million in receivables noted in the prior audit as outstanding. HMS reported approximately $9 million in TPL collections for fiscal year 2016.

Per federal regulations, Medicaid is the payer of last resort for the Medical Assistance Program (Medicaid) and the Children's Health Insurance Program (LaCHIP) eligible recipients. LDH is required to take reasonable measures to determine the legal liability of third parties and seek recovery for any applicable amounts. State law allows LDH to identify and submit a claim for recovery of TPL for up to three years after the date the medical service was provided and requires the third-party insurer to pay LDH on any properly submitted claims that were the responsibility of the third party. HMS has identified more than $18 million dollars in recoveries with claim service dates more than three years old. HMS may not be able to collect on these claims.

LDH should establish adequate processes to ensure that federal Medicaid requirements for TPL identification and collection are met, and pursue and recover any TPL receivable amounts previously identified. Also, LDH should require its contractor to provide adequate documentation to support estimated TPL receivable balances to ensure accurate financial reporting. Management concurred in part with the finding, agreeing that $18 million dollars in recoveries have claim dates more than three years old and noted it would continue to work with HMS to update required reporting. Management noted that LDH has six years from submission date to enforce recoveries (see Appendix A, pages 1-2).

Additional Comments: Management noted that "LA R.S. 46:446.6 (4d)" allows up to six years for the department to enforce its right of recovery. However, Louisiana Revised Statute

(R.S.) 46:446.6.B(4)(c) provides that the department must submit the claim for recovery within three years of the date of the service. Part (4)(d) would only allow the department six years to enforce its right of recovery if part (4)(c) was met first by identifying the right of recovery and submitting the recovery claim to the insurer.

Inadequate Controls over Quarterly Federal Expenditure Reporting

For the second consecutive year, LDH failed to accurately complete the required quarterly reports of federal expenditures, including more than $250 million in errors that were not discovered by LDH's review before submission to the federal oversight agency. The federal expenditures reported in the quarterly reports are used to reconcile the draws of federal funds. Uncorrected errors in the quarterly expenditures reports increase the risk that federal funds will be overdrawn or underdrawn and place LDH in noncompliance with federal regulations, and also limit the usefulness of the reports.

Our review of the four quarterly expenditure reports applicable to state fiscal year (FY) 2016 noted the following errors:

- For the quarters ending March 2016 and June 2016, LDH reported expenditures for Healthy Louisiana (formerly Bayou Health) behavioral health services on the wrong line of the quarterly financial report. In December 2015, behavioral health services that were previously provided under the Louisiana Behavioral Health Partnership (LBHP) were combined into Healthy Louisiana. The expenditures for each program were previously reported on two different lines of the quarterly financial report. LDH continued to capture behavioral health services on the reporting line designated for LBHP after the services were combined into Healthy Louisiana, resulting in an overstatement of LBHP by $250 million ($155 million in federal funds) and a corresponding understatement of Healthy Louisiana. The error remained uncorrected as of October 2016.

- For the quarters ending September 2015 through June 2016, LDH did not detect an error in the drug rebates receivable schedule. LDH made a correction to the schedule in the quarter ending June 2015 for a $92 million error noted in the previous audit. Due to a system error, the correction was not carried into the quarter ending September 2015, resulting in the schedule being misstated again. The error was carried through all four quarters of FY16, resulting in a misstatement that remained uncorrected at the time of our review in October 2016.

Medicaid requires quarterly reporting to the Centers for Medicare and Medicaid Services (CMS) detailing expenditures by category of service for which states are entitled to federal reimbursement. CMS requires accurate reporting of Medicaid expenditures. LDH has inadequate controls over preparation and review of the quarterly expenditure reports.

LDH should strengthen controls over preparation and review of the quarterly expenditure reports to ensure expenditures are accurately reported. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 3-4).

Noncompliance with Vendor Monitoring and Cost Containment Requirements

For the second consecutive year, the LDH, Office of Public Health (OPH) did not implement cost containment requirements and adequately monitor the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program vendors. Failure to implement cost containment requirements and properly monitor vendors can result in inflated food costs, undetected vendor violations, and federal claims on the state agency to recover excess food funds. Without the proper procedures in place, it is unknown how much of the $73 million in food cost is at risk of noncompliance with program regulations.

OPH has worked with United States Department of Agriculture's Food and Nutrition Service Agency (USDA FNS) federal regulators for the past three years to develop and implement policies and procedures for cost containment and monitoring to bring the program in line with federal policy. However, for the year under audit, required cost containment and monitoring procedures were not approved, and OPH represented that updated procedures were not implemented until October 2016.

WIC vendors are authorized by OPH to provide supplemental foods to participants under a retail food delivery system. Audit procedures identified the following:

- OPH did not obtain USDA FNS approval of its established vendor peer group system and the allowable reimbursement levels or certification of its vendor cost containment system as required by federal regulations. OPH is required by federal regulations to establish a method for controlling cost, through development of a system that categorizes vendors into groups with similar vendors and reviews prices by group to ensure competitive prices.

- OPH did not obtain USDA FNS approval of procedures used to identify vendors as above-50-percent vendors for federal fiscal year 2016 (October 2015 through September 2016). In addition, OPH did not obtain USDA FNS approval for the methodology used to monitor vendors that receive above 50% of their revenue from WIC food instruments. OPH is required by federal regulations to ensure the prices charged by above-50-percent vendors are not inflated from those of regular vendors by performing monitoring on a quarterly basis. While OPH provided documentation indicating that monitoring was performed, OPH indicated that no actions were taken based upon the results of that monitoring to adjust prices that were determined to be inflated.

- OPH did not obtain USDA FNS approval of its procedures performed to identify high-risk vendors. OPH is required to identify high-risk vendors at least once each year using criteria developed by USDA FNS and perform compliance investigations on all identified high-risk vendors, up to an amount equal to 5% of the number of authorized vendors for the state. However, while OPH did not obtain approval for its high-risk vendor determinations, OPH did perform compliance investigations for 5% of its total authorized vendors during fiscal year 2016 as required.

OPH management should continue to work with USDA FNS to evaluate federal guidelines and OPH policies and procedures to ensure that cost containment requirements are implemented and vendors are monitored appropriately to ensure compliance with federal regulations. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 5-7).

Improper Payments to Waiver Service Providers

For the fifth consecutive year, LDH paid New Opportunities Waiver (NOW) and Community Choice Waiver (CCW) claims under Medicaid totaling $13,989 ($8,703 in federal funds and $5,286 in state funds) for waiver services that were not documented in accordance with established policies, which we consider to be questioned costs. NOW is administered by the LDH Office for Citizens with Developmental Disabilities and CCW by the LDH Office of Aging and Adult Services. Improper payments for waiver services have been reported in 14 of the last 17 audits, totaling $609,008.

In a test including 42 claims totaling $21,141 paid to two providers for six recipients, we noted 29 (69%) instances of undocumented, consistent deviations from the approved Plan of Care (CPOC) for five recipients.

- For 16 instances related to three recipients, the providers consistently failed to provide enough services to meet the CPOC-approved service hours. The providers could not produce documentation or approvals to justify the deviations from approved service hours. The providers noted staffing difficulties as a likely cause.

- For 13 instances related to two recipients, the provider consistently provided service hours beyond the hours approved under the CPOC. No documentation or approvals were present to justify the additional services provided. Also, no documentation was present to indicate that the recipients requested additional service hours. No CPOC revisions were noted during the time period tested.

According to the NOW manual, an occasional or temporary deviation from a recipient's scheduled services is acceptable as long as the services being altered are recipient-driven, person-centered, and occur within the prior authorization. When a recipient's schedule is altered on a consistent basis, a revision to the approved CPOC is required indicating the reason for the change. According to the CCW manual, providers are required to document any deviations from the CPOC.

Noncompliance with program policies occurred because LDH failed to ensure NOW and CCW providers are following approved CPOCs and that revisions to CPOCs occur when service hours do not align with the needs of the recipient. According to LDH's Request for Service Registry, there were 26,877 individuals waiting for CCW services as of August 31, 2016, and 14,381 individuals waiting for NOW services as of July 31, 2016. If recipients are under utilizing the allocated service hours, the CPOC should be revised, possibly allowing other individuals on the waiting list into the program. If a recipient is in need of additional service hours, the CPOC should be revised to better address the need.

LDH management should ensure all departmental policies and federal regulations are enforced, including that CPOCs accurately reflect the need of the recipient and are followed and/or revised in a timely manner when necessary. LDH should also ensure proper allocation of resources to provide the opportunity for waiver services to more individuals from the waiting lists. Management concurred in part with the finding and indicated it does not agree that improper payments were made (see Appendix A, page 8).

Additional Comments: LDH provider manuals for both the NOW and CCW waivers state that the manual is intended to give a provider the information needed to fulfill its vendor agreement with the state of Louisiana and is the basis for federal and state reviews of the program. Full implementation of these regulations is necessary for a provider to remain in compliance with federal and state laws and LDH rules. Claims paid to the providers noted in the finding are considered questioned costs because the providers were in noncompliance with policies set forth in the respective manuals and, as a result, in violation of their provider agreements.

Inadequate Controls over Reporting of Subrecipients

For the second consecutive year, OPH's Schedule of Expenditures of Federal Awards (SEFA) did not contain an accurate listing of amounts provided to subrecipients for four federal awards, causing a net understatement of $19.4 million. Failure to properly compile and review the SEFA increases the likelihood that errors and omissions, either intentional or unintentional, may occur and remain undetected in the state's Single Audit report.

OPH is required to identify and submit to the Office of Statewide Reporting and Accounting Policy (OSRAP) the total amount of federal dollars, by federal program, provided to subrecipients on the SEFA. OPH failed to properly identify certain contracts within the state contract system as subrecipients in accordance with agency policy. As a result, OPH used incomplete system reports when preparing the SEFA. In addition, OPH did not have an effective review process to ensure that all subrecipients were properly identified during the SEFA preparation and included in the schedule.

Management should ensure the SEFA, including subrecipient information, is complete and accurate prior to submission to OSRAP. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 9-10).

Noncompliance with Subrecipient Monitoring Requirements

For the second consecutive year, OPH did not adequately monitor WIC program subrecipients. Failure to properly monitor subrecipients could result in noncompliance with program requirements and increases the likelihood of federal disallowed costs that the state may have to return to the federal grantor. The WIC program as a whole served a total monthly average of 128,000 participants with a total annual program cost of $104 million. OPH has provided approximately $6 million annually to WIC subrecipients during the past three fiscal years.

Our audit procedures identified that OPH did not verify that contracted local agency subrecipients received an audit in accordance with federal regulations when appropriate and did not issue management decisions on applicable findings. OPH did not obtain and review audit reports for 10 of 15 (67%) subrecipients requiring an audit. In addition, one of the subrecipient audits contained a finding pertaining to the WIC program on which OPH did not issue a management decision within the required timeframe. Our audit procedures also identified that OPH did not perform procedures to evaluate each subrecipient's risk of noncompliance with federal regulations pertaining to WIC funds.

OPH is required to verify that appropriate audits are completed for WIC subrecipients when it is expected that the subrecipient meets the expenditure threshold requiring an audit. In addition, OPH is required to issue a management decision on audit findings pertaining to the awarded WIC funds within six months of acceptance of the audit report by the Federal Audit Clearinghouse. OPH is also required to evaluate each subrecipient's risk of noncompliance with federal regulations pertaining to the subaward for the purpose of determining appropriate subrecipient monitoring procedures.

Management should implement procedures to ensure subrecipient audit reports are obtained and reviewed, management decisions are issued timely and, if applicable, subrecipients have taken timely and appropriate corrective action as required by federal regulations. Management should also implement procedures to evaluate each subrecipient's risk of noncompliance with federal regulations to determine the appropriate subrecipient monitoring that should be performed. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 11-12).

Inadequate Internal Audit Function

For fiscal year 2016, LDH did not have an adequate 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. In addition, LDH did not comply with R.S. 36:8.2, which requires agencies that have an appropriation of $30 million or more to establish an internal audit function that adheres to the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing*. IIA standards require external and internal assessments as part of the Quality Assurance and Improvement Program. R.S. 36:8.2 also requires the chief audit executive to annually certify conformance with IIA standards to the agency Secretary.

LDH Internal Audit was responsible for seven agencies with annual appropriations exceeding $30 million in the annual appropriation bill. LDH Internal Audit was comprised of one director, one investigator, and four auditors during fiscal year 2016. Our review of the LDH internal audit function noted the following:

- While eight risk-based audits were issued, no audits of Medical Vendor Payments (Medicaid), Office of Public Health, or Office for Citizens with Developmental Disabilities were issued in fiscal year 2016.

- LDH Internal Audit issued one audit for Medical Vendor Administration and one for the Office of Behavioral Health during fiscal year 2016. Both audits reviewed check receipt procedures and did not address significant program issues. In addition, one audit was issued for the Office of the Secretary addressing human resources policies for k-time usage.

- Management's response was not obtained for three reports as required by the approved audit charter.

- LDH did not complete any internal assessments as of November 2016.

- LDH Internal Audit provided an undated certification for fiscal year 2016 addressed to the LDH Chief of Staff on November 2, 2016, representing in the memo that LDH Internal Audit had not achieved compliance with IIA Standards.

Considering LDH's reported assets and revenues of approximately $840 million and $8.9 billion, respectively, an adequate and effective internal audit function is important to ensure that LDH's assets are safeguarded and that management's policies and procedures are uniformly applied. LDH management should take the necessary steps to ensure an adequate internal audit function is in place. Management concurred with the finding and provided a corrective action plan (see Appendix A, pages 13-14).

Comprehensive Annual Financial Report (CAFR) – State of Louisiana

As a part of our audit of the State of Louisiana's CAFR for the year ended June 30, 2016, we considered internal control over financial reporting and examined evidence supporting LDH's Medical Vendor Payments (Agency 306) non-payroll expenditures, federal revenue, Medicaid current and non-current accruals, and critical information systems and related user controls.

Based on the results of our procedures, account balances and classes of transactions tested, as adjusted, are materially correct.

Federal Compliance - Single Audit of the State of Louisiana

As a part of the Single Audit for the year ended June 30, 2016, we performed internal control and compliance testing as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) on LDH's major federal programs, as follows:

- Medicaid Cluster (CFDA 93.775, 93.777, 93.778)

- Children's Health Insurance Program (CFDA 93.767)

- Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557)

- Hazard Mitigation Grant (CFDA 97.039)

Those tests included evaluating the effectiveness of LDH's internal controls designed to prevent or detect material noncompliance with program requirements, and tests to determine whether LDH complied with applicable program requirements.

In addition, we performed procedures on information submitted by LDH to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards and the Summary Schedule of Prior Audit Findings, as required by Uniform Guidance.

Based on the results of these Single Audit procedures, we reported findings related to noncompliance with third-party liability requirements, inadequate controls over quarterly federal expenditure reporting, noncompliance with vendor monitoring and cost containment requirements, improper payments to waiver service providers, inadequate controls over reporting of subrecipients, and noncompliance with subrecipient monitoring requirements that will also be included in the Single Audit for the year ended June 30, 2016. In addition, LDH's Schedule of Expenditures of Federal Awards and Summary Schedule of Prior Audit Findings, as adjusted, were materially correct.

Other Report

LDH – Medicaid Recipient Eligibility – Managed Care and Louisiana Residency

The Louisiana Legislative Auditor created a Medicaid Audit Unit (MAU) to focus audit efforts on fraud, waste, and abuse in Louisiana Medicaid, particularly in managed care. The MAU combines the efforts of financial, performance, and investigative auditors to better approach widely reported provider overpayments.

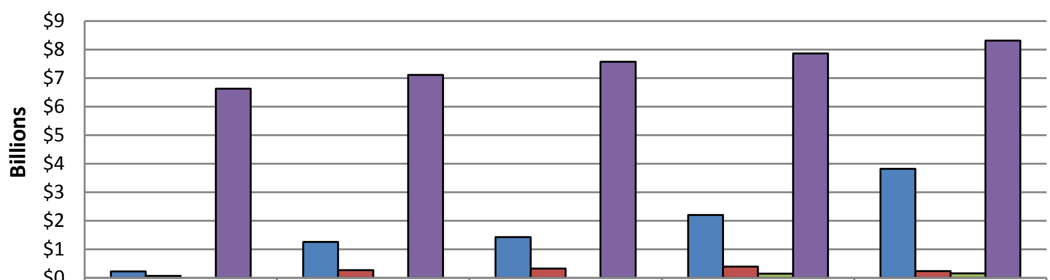
The Legislative Auditor issued a MAU report on October 26, 2016, that reported weaknesses in Medicaid eligibility, resulting in LDH paying monthly premiums for recipients who did not reside in Louisiana, with known payment errors of $943,274, and likely additional payment errors of $1,491,552. The full report is available in the Audit Report Library on the Legislative Auditor's website at www.lla.la.gov.

Trend Analysis

We compared the most current and prior-year financial activity using LDH's annual fiscal reports and/or system-generated reports and obtained explanations from LDH management for any significant variances.

We also prepared an analysis of Medicaid managed care expenditures for the past five fiscal years. Managed care was introduced in the Louisiana Medicaid program in fiscal year 2012. Managed care expenditures have increased 175% since 2013, the first full fiscal year of operation. In fiscal year 2016, managed care expenditures accounted for 51% of Medical Vendor Program expenditures.

Medicaid Managed Care Expenditures Compared to Total Program, Five-Year Trend



	2012	2013	2014	2015	2016
HEALTHY LOUISIANA	$233,296,450	$1,259,191,143	$1,434,485,927	$2,208,214,296	$3,825,909,416
LBHP	$68,901,373	$273,823,482	$329,538,118	$396,772,330	$236,519,547
DENTAL				$149,304,048	$157,639,057
TOTAL PROGRAM	$6,633,713,258	$7,113,341,942	$7,577,662,782	$7,862,531,348	$8,317,394,056

Sources: Medicaid Annual Reports prepared by LDH for fiscal years 2012-2015 and Medicaid Financial Report for State Fiscal Year 2015/16

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

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

Daryl G. Purpera, CPA, CFE
Legislative Auditor

KW:AHC:WDG:EFS:aa
LDH 2016

APPENDIX A: MANAGEMENT'S RESPONSES

John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

State of Louisiana

Louisiana Department of Health
Bureau of Health Services Financing

November 3, 2016

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

Dear Mr. Purpera.

This letter is in response to the October 24, 2016 letter to Dr. Rebekah Gee from Angel Cavaretta regarding the audit finding of "Noncompliance with Third-Party Liability Requirements." Management concurs with the finding in part.

Approximately 90 percent of the Louisiana Medicaid population is enrolled in managed care and 10 percent are fee-for-service (FFS) recipients. The Louisiana Department of Health (LDH) is responsible for the identification and recovery of paid claims where a third party is liable to pay for medical services provided to a FFS recipient. Managed Care Organizations are responsible for the identification and recovery of paid claims where a third party is liable to pay for medical services provided to a managed care enrollee. LDH has reserved the right to pursue Third Party Liability involving managed care enrollees if Managed Care Organizations have not recouped within 365 days from dates of service.

LDH released a Third Party Liability Request for Proposal on May 30, 2014 for services January 1, 2015 through December 31, 2018. A recommendation for award was made. However, at the direction of Division of Administration, the RFP was canceled in March 2015. In March 2016, LDH executed an emergency contract with Health Management Systems (HMS) to identify and recover claims payments from liable third parties for dates of service through September 2016. In May 2016, LDH awarded to HMS a new contract to identify and recover claims payments from liable third parties with a July 1, 2016 effective date. Pending final approval of the new contract by the Office of State Procurement, HMS began performing the work on the effective date, working at risk until the contract is fully executed and payment authorized.

Third Party Liability accounts receivables are estimates. Not all of the accounts are recoverable and must be reevaluated. The $29 million in accounts receivables reported at the end of HMS' contract ending in December 2014 was reevaluated. Of the total, $3 million was determined unrecoverable due to member eligibility updates or services which are not covered by the member's primary carrier, and $2 million was determined unrecoverable due to federal regulations governing Tricare insurance.

LDH concurs with the finding that $18 million reported in accounts receivables are beyond 36-month timely filing. However, pursuant to LA R.S. 46:446.6 (4d), LDH has up to six years from the date of submission of the claim to enforce its right of recovery. LDH is requiring HMS pursue these billings.

LDH requires the Third Party Liability vendor to provide quarterly Accounts Receivable Reports based on the instructions provided by the Office of Statewide Reporting and Accounting Policy. With a lapse of fourteen (14) months, the FY 2016 accounts receivables was impacted because insurance carriers continued to submit funds associated with billing cycles performed by HMS under the previous contract. LDH will continue to work with HMS to update the quarterly Accounts Receivable Reports.

A corrective action plan is not required as LDH established a process to ensure federal Medicaid requirements for Third Party Liability have been met through the HMS emergency contract for dates of service from December 31, 2014 when the previous Third Party Liability contract ended, and entered into a new Third Party Liability contract from July 1, 2016 through June 30, 2019. LDH contractually requires the Third Party Liability contractor to provide adequate documentation to support estimated Third Party Liability receivable balances to ensure accurate financial reporting.

Sincerely,

Jen Steele
Medicaid Director

JS/BP/KC

C. Pat Cane
Kerri Capello
Angel Cavaretta
Pam Diez
Bill Perkins

John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

State of Louisiana

Louisiana Department of Health
Office of Management and Finance

November 21, 2016

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

RE: Inadequate Controls over Quarterly Federal Expenditure Reporting

Dear Mr. Purpera:

We have carefully reviewed the above referenced reportable audit finding and provide the following response to the recommendation documented in the report.

Recommendation:

LDH should strengthen controls over preparation and review of the quarterly expenditure reports to ensure expenditures are accurately reported.

Response:

The LDH Division of Fiscal Management concurs that the amount reported on the quarterly expenditure reports on LABHP Waiver line 18B2 was overstated for quarters ending March 31, 2016 and June 30, 2016 due to the inclusion of additional costs posted to newly established organizations. The organizations were set up to capture waiver costs incurred for provider services through the MCOs. Fiscal Management staff understood that costs in these new organizations were to be reported to the waiver by MEG on line 18B2.

After researching and receiving clarification, staff now understands that organizations with a specifically identifiable pattern are MCO payments and should be reported on the LABHP Waiver under its respective MEG on line 18A. These organizations will be reported correctly for the quarter ending September 30, 2016 and for future quarters. Additionally, staff will make a prior period adjustment on the quarterly expenditure reports for quarter ending September 30, 2016 to correctly report all previously reported costs that should have been reported on line 18A.

Effective immediately, the Fiscal Medicaid Reporting Unit responsible for quarterly expenditure reporting will communicate with LDH Medicaid program staff when new organizations are established to gain a thorough understanding of the types of expenditures to be coded to the new organizations so that Fiscal staff will report them on the proper line.

The LDH Division of Fiscal Management also concurs that the Drug Rebates Schedule Form 64.9R for quarter ending September 30, 2015 was misstated by $92 million due to a correction from the June 30, 2015 report that was not carried forward in the September 30, 2015 beginning balance. As the 64.9R Report automatically generates the beginning balances for the next quarter's reporting, Fiscal staff was unaware that this adjustment would not automatically roll forward in the beginning balance.

Fiscal is receiving guidance from the CMS auditors on how to properly adjust for the $92 million on the report for the quarter ending September 30, 2016. In order to get the revised values for quarter ending September 30, 2015 corrected and have the correction carry over to each quarter and subsequently to September 30, 2016, Fiscal staff must uncertify the September 30, 2015 submission, delete the 64.9R Report, add the revised 64.9R Report, and recertify the September 30, 2015 submission. Fiscal staff will then need to follow the same steps for each subsequent quarter through September 30, 2016. Fiscal staff was advised by CMS to not begin this correction process with the quarter ending September 30, 2016. We will begin working with CMS in early December 2016 to make the corrections and bring the revised balance to the quarter ending September 30, 2016. Thus, when the Fiscal Medicaid Reporting Unit begins preparation of the report for quarter ending December 31, 2016, the report will be populated with the correct beginning balances.

Effective immediately, the Fiscal Medicaid Reporting Unit responsible for quarterly expenditure reporting has put into place an additional internal control to review and compare the balances between the previous and current quarters' 64.9R Report to ensure beginning and cumulative totals are correct. The unit will update its procedures to include such review of the balances as well.

Please contact me at (225) 342-9568 if you have any questions or need additional information on this finding.

Sincerely,

Patricia Cane

Patricia Cane, CPA
Director, Division of Fiscal Management

c: Cindy Rives
Angel Cavaretta
Carol Meyers

John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

State of Louisiana

Louisiana Department of Health
Office of Public Health

January 11, 2017

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

Dear Mr. Purpera:

The Louisiana Department of Health (LDH) Office of Public Health (OPH) concurs with the audit finding for the FY2016 (1 Oct 2015 – 30 Sep 2016). However, I would like to provide additional information that I believe is relevant to these findings. In mid-May, LDH OPH hired a new Bureau of Nutrition Services (BNS) Director, Bruce Boyea, who became responsible for managing the WIC Program. He immediately began to work closely with USDA to address outstanding issues with Vendor Monitoring and Cost Containment Requirements.

Since he was hired, his accomplishments include the development of new and effective policies and procedures for all aspects of WIC Vendor Management including: development of new vendor agreements and a comprehensive vendor guide, an approved peer group and cost containment system, and appropriate identification and handling of "Above 50% Vendors". These Vendor Monitoring policies and procedures not only required USDA approval, but they also required changes in the Louisiana Administrative Code (LAC) to include new selection criteria, sanction schedules and administrative review procedures. These Vendor Monitoring policies and procedures were not approved by USDA until 9-28-16 and immediately following, the required LAC changes were initiated on October 1, 2016.

The following provides a summary of BNS's progress towards addressing the three findings identified in the Audit dated January 4, 2017:

Audit Finding 1: OPH did not obtain USDA FNS approval of its established vendor peer group system and the allowable reimbursement levels or certification of its vendor cost containment system as required by federal regulations.

Progress: LDH OPH BNS obtained USDA FNS approval on 9/28/2016 and 529 vendor agreements were successfully negotiated and executed by 10/1/2016.

Audit Finding 2: OPH did not obtain USDA FNS approval of procedures used to identify vendors as above-50-percent vendors for federal fiscal year 2016 (10/2015-9/2016) nor did OPH obtain USDA FNS approval for the methodology used to monitor vendors that receive above 50% of their revenue from WIC food instruments.

Progress: LDH OPH BNS obtained USDA FNS approval on 9/9/2016 and 16 above -50-percent vendors were identified, notified, and removed from the program by 10/1/2016.

Audit Finding 3: OPH did not obtain USDA FNS approval of procedures to identify high-risk vendors.

Progress: LDH OPH BNS obtained USDA FNS approval on 9/28/2016. Although approval was not secured until 9/28/2016, OPH BNS successfully conducted 33 performance compliance investigations on over 5% of its authorized vendors during FY2016.

In summary, all of the above referenced documents and procedures were collaboratively developed, reviewed, and ultimately approved by USDA on 9/28/2016. In addition, the required LAC revisions were pursued. Attached you will find a letter from USDA supporting the information provided in this response.

Thank you for the opportunity to respond to the findings in this audit. Should you need additional information, please contact me at 225-342-8093.

Sincerely,

M. Beth Scalco

Beth Scalco
Assistant Secretary

Attachment: USDA/FNS/WIC - Provisional Operations Letter

United States Department of Agriculture

Food and Nutrition Service

Southwest Region

1100 Commerce St.
Rm. 522
Dallas, TX 75242

January 6, 2017

Beth Scalco, Assistant Secretary
LDH Office of Public Health (OPH)
628 N. 4th Street
Baton Rouge, LA 70802

Dear Ms. Scalco:

The Food and Nutrition Service (FNS) Special Supplemental Nutrition Program for Women, Infants and Children (WIC) provided direct and interactive guidance over the Louisiana WIC Program during Federal Fiscal Year 2016 (FFY2016: 10/1/2015 – 9/30/2016). During this period the following program integrity systems were granted provisional compliance while permanent collaborative solutions were developed, approved, and successfully implemented on 10/1/2016:

- Vendor Peer Groups (PGs)
- Maximum Allowable Reimbursement Levels (MARLs)
- Vendor Cost Containment
- Above 50% (A50) Vendors
- High Risk Vendors

The USDA is extremely pleased with the progress your team made resolving outstanding issues that have plagued the Louisiana WIC Program for years! Several processes developed by our groundbreaking synergistic joint task force are already being touted as FNS Best Practices.

Thank you for your partnership and program integrity improvement contributions you have made. If there are any questions, please call me at (214) 290-9910.

Sincerely,

Darrell V. Allen

DARRELL V. ALLEN
Branch Chief
Supplemental Food Program

AN EQUAL OPPORTUNITY EMPLOYER

John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

State of Louisiana

Louisiana Department of Health

November 16, 2016

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

RE: Improper Payments to Waiver Service Providers

Dear Mr. Purpera:

LDH has received and reviewed the reportable audit finding of above mentioned audit. LDH concurs that there is need for clarification in policy guidelines and documentation requirements related to changes in schedule. However, LDH does not agree that there were improper payments to waiver service providers.

Sincerely,

Tara A. LeBlanc

Tara A. LeBlanc
Assistant Secretary
Office of Aging and Adult Services

Mark A. Thomas

Mark A Thomas
Assistant Secretary
Office for Citizens with Developmental Disabilities.

John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

State of Louisiana

Louisiana Department of Health
Office of Management and Finance

December 13, 2016

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

RE: Inadequate Controls over Reporting of Subrecipients

Dear Mr. Purpera:

We have carefully reviewed the above referenced reportable audit finding and provide the following response to the recommendation documented in the report.

Recommendation:

Management should ensure the SEFA, including subrecipient information, is complete and accurate prior to submission to OSRAP.

Response:

Management of the Louisiana Department of Health (LDH) concurs with the finding relative to Inadequate Controls over Reporting of Subrecipients. While this is the second consecutive year for this finding, advances have been made in correcting this deficiency. During the audit year, LDH staff worked closely with the Division of Administration (DOA) to develop and implement a new subrecipient indicator field on SRM Purchase Orders. The Office of Public Health distributed guidelines to staff for subrecipient determination and instructions to utilize the new indicator field when applicable. For SEFA reporting, LDH developed Business Objects reports to extract subrecipient data from SRM using the new indicator field as a retrieval criterion.

The repeat finding is the result of four instances in which the contract itself was marked as a subrecipient, but the new indicator field on the SRM Purchase Order was not. Since the subrecipient indicator is optional with a default to "No", the failure to make an entry resulted in the contracts being identified as non-subrecipients in SRM and thus excluded from the extraction report used to complete the SEFA. In April, 2016, LDH requested DOA to make the indicator a

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mandatory "Yes" or "No" field in SRM to prevent missing entries from defaulting to "No", but that request remains under consideration.

Proposed corrective action for State Fiscal Year 2017 includes continued dialog with DOA to make the SRM subrecipient indicator field mandatory. In absence of that, LDH will explore the possibility of requiring a signature on subrecipient contracts attesting that the SRM subrecipient indicator has been marked. In addition, LDH will create an exception report to compare previous years' reported subrecipients against those extracted in the current year to ascertain if exclusions may have occurred.

Please contact me at (225) 342-8093 if you have any questions or need additional information on this finding.

Sincerely,

Beth Scalco
Assistant Secretary
Office of Public Health

c: Cindy Rives
Angel Cavaretta
Edward Holmberg
Patricia Cane

John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

State of Louisiana

Louisiana Department of Health
Office of Public Health

January 17, 2017

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

Mr. Purpera:

LDH concurs that the Bureau of Nutrition Service's Women, Infants and Children (WIC) Program did not have appropriate procedures in place to adequately monitor subrecipients. The Office of Public Health (OPH) recognizes that as funding passes through our agency to other entities that we are required to ensure that these subrecipients are receiving and responding to audits.

We have gathered information about subrecipient monitoring from other OPH programs and have found that the procedures they have in place would be beneficial to standardize and implement agency wide. In order to ensure the appropriate monitoring of subrecipients and compliance with federal requirements, OPH is drafting policies and procedures to address this issue. We expect to complete this process and to implement by February 6, 2017. These procedures include but are not limited to following actions:

- Monitor the subrecipients' activities to ensure grant funds are used for approved purposes and offer technical assistance when needed.

- Communicate on an annual basis with the subrecipient to determine whether they have exceeded the monetary threshold requiring an audit.

- Send a letter annually to subrecipients' advising them to submit a copy of their current audit report to the respective Program and advise them that required audit documents must be on file with our office and the Louisiana Department of Health, Division of Fiscal Management for invoices to be paid. Receipt of audit reports will be monitored and Programs will follow up with the subrecipients' if audit reports are not received timely.

- Review all audit reports and when there are audit findings, ensure that the Program is in agreement with the subrecipients' audit response.

If additional information is required or further corrective action recommended, please don't hesitate to contact me at 225-342-8093.

Sincerely,

M. Beth Scalco

M. Beth Scalco
Assistant Secretary

John Bel Edwards
GOVERNOR

Rebekah E. Gee MD, MPH
SECRETARY

State of Louisiana

Louisiana Department of Health
Office of the Secretary

December 7, 2016

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

Re: Inadequate Internal Audit Function

Dear Mr. Purpera,

Management of the Louisiana Department of Health (LDH) concurs with the finding relative to inadequate internal audit function.

Corrective Action:

- The Internal Audit Section has documented its plans to audit all 7 LDH agencies in FY 17 using a risk-based audit plan. In addition, we plan to fill 2 auditor positions during FY 17, which will provide additional auditor resources in order to accomplish our audit plan.

- All audit reports issued in FY 17 will have a management response included in accordance with Internal Audit Section policy.

- Relative to Louisiana Revised Statute (R.S.) 36:8.2, LDH Internal Audit will complete a documented internal quality assessment as part of a Quality Assurance and Improvement Program (QAIP) during FY 17 in order to achieve reasonable assurance of compliance with The Institute of Internal Auditors' (IIA) Standards. Work towards achieving this objective is underway. One of the remaining items for the internal assessment is a bi-annual customer survey, the first phase of which has been sent out to LDH auditees with the second phase scheduled to be complete by the end of FY 17. Documentation of the Section's Internal Quality Assessment will be formally communicated to LDH management on an annual basis.

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The above corrective action plan is anticipated to be completed by June 30, 2017. You may contact Michael Breland at (225) 342-8158 regarding the actions to be taken related to this finding.

Warmly,

Rebekah E. Gee MD, MPH
Secretary

CC:

W. Jeff Reynolds, Undersecretary
Andrew Tuozzolo, Chief of Staff

APPENDIX B: SCOPE AND METHODOLOGY

We performed certain procedures at the Louisiana Department of Health (LDH), including the Office of Public Health, for the period from July 1, 2015, through June 30, 2016, to provide assurances on financial information significant to the State of Louisiana and to evaluate relevant systems of internal control in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States. The procedures included inquiry, observation, and review of policies and procedures, and a review of relevant laws and regulations. Our procedures, summarized below, are a part of the audit of the State of Louisiana's financial statements and the Single Audit of the State of Louisiana (Single Audit) for the year ended June 30, 2016.

- We evaluated LDH's operations and system of internal controls through inquiry, observation, and review of its policies and procedures, including a review of the laws and regulations applicable to LDH.

- Based on the documentation of LDH's controls and our understanding of related laws and regulations, we performed procedures to provide assurances on LDH's account balances and classes of transactions to support the opinion on the State of Louisiana's financial statements.

- We performed procedures on the Medicaid Cluster of federal programs; the Children's Health Insurance Program (LaChip); Hazard Mitigation Grant; and Special Supplemental Nutrition Program for Women, Infants, and Children for the year ended June 30, 2016, as a part of the 2016 Single Audit.

- We performed procedures on information submitted by LDH to the Division of Administration's Office of Statewide Reporting and Accounting Policy for the preparation of the state's Schedule of Expenditures of Federal Awards and the Summary Schedule of Prior Audit Findings for the year ended June 30, 2016, as a part of the Single Audit.

- We compared the most current and prior-year financial activity using LDH's annual fiscal reports and/or system-generated reports to identify trends and obtained explanations from LDH management for significant variances.

The purpose of this report is solely to describe the scope of our work at LDH and not to provide an opinion on the effectiveness of LDH's internal control over financial reporting or on compliance. Accordingly, this report is not intended to be, and should not be, used for any other purposes.

We did not audit or review LDH's Annual Fiscal Reports, and accordingly, we do not express an opinion on those reports. LDH's accounts are an integral part of the State of Louisiana's financial statements, upon which the Louisiana Legislative Auditor expresses opinions.