

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



MANAGEMENT LETTER
ISSUED JANUARY 18, 2012

**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 has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. One copy of this public document was produced at an approximate cost of \$4.21. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor's Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 3347 or Report ID No. 80110025 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Kerry Fitzgerald, Chief Administrative Officer, at 225-339-3800.

EXECUTIVE SUMMARY

Our procedures at the Department of Health and Hospitals (DHH) for the period July 1, 2010, through June 30, 2011, disclosed the following:

- For the fourth consecutive year, DHH paid claims to a provider of Non-Emergency Medical Transportation (NEMT) for services billed to the Medical Assistance Program (Medicaid, CFDA 93.778) that were not provided in accordance with established policies. A review of 82 claims totaling \$9,071 paid to one provider during calendar year 2010 identified 39 claims (48%) where the provider did not maintain the required documentation to support the claims. Questioned costs totaled \$2,901.
- DHH did not follow Medicaid waiver requirements for the Greater New Orleans Community Health Connection waiver resulting in overpayments to providers. The overpayments resulted in questioned costs of \$2,920,278, which include \$2,354,795 of federal funds and \$565,483 of state matching funds. Of the federal funds, \$497,206 was American Recovery and Reinvestment Act funds.
- 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. In January 2011, DHH eliminated all but one internal audit position. The one remaining auditor retired in February 2011, leaving the position vacant as of June 30, 2011, and issued only two internal audit reports during the fiscal year.
- Our auditors performed procedures on the procurement process for the state's Medicaid fiscal intermediary and operator of the Medicaid Management Information System. We noted no variance from state procurement laws.
- No significant control deficiencies, noncompliance, or errors relating to our procedures on nonpayroll expenditures, federal revenue, major state revenue, accounts receivable, accounts payable, deferred revenue, interagency transfers, Medicaid current and non-current accruals, and critical information systems and related user access controls were identified.
- Other than the findings noted in the first three bullets, no significant control deficiencies or noncompliance that would require reporting under Office of Management and Budget Circular A-133 were identified for the following federal programs for the fiscal year ended June 30, 2011:
 - Medicaid Cluster (CFDA 93.720, 93.775, 93.777, 93.778)
 - State Children's Insurance Program (CFDA 93.767)

- Social Services Block Grant (CFDA 93.667)

This report is a public report and has been distributed to state officials. We appreciate DHH's assistance in the successful completion of our work.

Mission

The mission of DHH is to protect and promote health and to ensure access to medical, preventive, and rehabilitative services for all citizens of the State of Louisiana. DHH is dedicated to fulfilling its mission through direct provision of quality services, the development and stimulation of services of others, and the utilization of available resources in the most effective manner.

To fulfill its mission, DHH intends to:

- Provide quality service
- Protect and promote health
- Develop and stimulate services by others
- Utilize available resources in the most effective manner



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA, CFE

December 21, 2011

**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 for the fiscal year ended June 30, 2011, we conducted certain procedures at the Department of Department of Health and Hospitals (DHH) for the period from July 1, 2010, through June 30, 2011.

- Our auditors obtained and documented a basic understanding of the DHH operations and system of internal controls, including internal controls over major federal award programs administered by DHH, through inquiry, observation, and review of its policies and procedures documentation, including a review of the related 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 DHH management of any significant variances.
- Our auditors reviewed the status of the findings identified in the prior year engagement. In our prior management letter on DHH, dated December 9, 2010, we reported findings relating to improper payments to waiver services providers and improper claims by long term personal care services providers which have been resolved by management. The finding relating to improper payments to non-emergency medical transportation service providers has not been resolved and is addressed again in this letter.
- Our auditors considered internal control over financial reporting; examined evidence supporting DHH's nonpayroll expenditures, federal revenue, major state revenue, accounts receivable, accounts payable, deferred revenue, interagency transfers, Medicaid current and non-current accruals, and critical information systems and related user access controls; and 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, 2011, in accordance with *Government Auditing Standards*.

- Our auditors performed internal control and compliance testing in accordance with Office of Management and Budget (OMB) Circular A-133 on the following federal programs for the fiscal year ended June 30, 2011, 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)
 - Social Services Block Grant (CFDA 93.667)
- Our auditors performed procedures on the procurement process for the state's Medicaid fiscal intermediary and operator of the Medicaid Management Information System. The fiscal intermediary contract is one of the largest in state government. We noted no variance from state procurement laws.

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 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 that are required to be reported by *Government Auditing Standards*. All of these findings, except for the finding on an ineffective internal audit function, will be included in the State of Louisiana's Single Audit Report for the year ended June 30, 2011. Other than the findings noted on the following pages, we found no significant control deficiencies, noncompliance, or errors relating to our analytical procedures or our other audit procedures, including our procedures on federal programs, which should be communicated to management.

The following significant findings are included in this letter for management's consideration.

Improper Payments to Non-Emergency Medical Transportation Service Provider

For the fourth consecutive year, DHH paid claims to a provider of Non-Emergency Medical Transportation (NEMT) for services billed to the Medical Assistance Program (Medicaid, CFDA 93.778) that were not provided in accordance with established policies. 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 the following:

- Copies of all Recipient Verification of Medical Transportation Forms (Form MT-3) as documentation of all trips provided

- A daily schedule of transports

A review of 82 claims totaling \$9,071 paid to one provider during calendar year 2010 identified the following errors:

- For 11 claims (13%), the provider did not maintain adequate documentation of the trips provided. The provider could not provide completed copies of MT-3s to substantiate all trips approved under capitated (monthly) and/or single trip rates. Questioned costs totaled \$2,901.
- For 28 claims (34%), the provider did not maintain an adequate daily schedule of transports in the records.

These conditions occurred because the NEMT provider failed to follow established DHH Bureau of Health Services Financing policies and regulations for providing services and adequately documenting those services, and the DHH controls were inadequate in detecting these exceptions. Questioned costs were \$2,901, which included \$1,961 of federal funds and \$940 of state matching funds.

DHH management should ensure that all NEMT rules and regulations are enforced 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 1).

Improper Payments to Greater New Orleans Community Health Connection Waiver Service Providers

DHH did not follow Medicaid waiver requirements for the Greater New Orleans Community Health Connection (GNOCHC) waiver resulting in overpayments to providers. The overpayments resulted in questioned costs of \$2,920,278, which include \$2,354,795 of federal funds and \$565,483 of state matching funds. Of the federal funds, \$497,206 was American Recovery and Reinvestment Act funds.

DHH made 32 payments to 17 providers totaling \$8,467,043 before June 30, 2011. During a review of all payments and providers, we identified the following errors:

- For six of 17 (35%) providers, DHH did not have GNOCHC applications that were effective October 1, 2010. For these providers, Centers for Medicare and Medicaid Services (CMS) approval was not requested or received. DHH paid these providers \$2,871,204 as of June 30, 2011.
- For 16 of 17 (94%) providers, DHH did not have completed GNOCHC provider applications containing required provider license numbers.
- For nine of 17 providers (53%), DHH did not calculate urgent payments using the criteria detailed in the waiver special terms and conditions, resulting in overpayments of \$49,074 at June 30, 2011.

- Two of 17 (12%) providers have exited the program as of September 2011 after receiving DHH payments totaling \$242,786. The risk exists that during the December 31, 2011, reconciliation, these providers will not be able to support all payments received, leaving DHH unable to recoup possible overpayments.
- For one of 17 (6%) providers, DHH did not receive required quarterly reports.

The GNOCHC waiver is a Medicaid Section 1115 demonstration waiver that was implemented to preserve primary and behavioral health care access that was restored and expanded in the Greater New Orleans area after Hurricane Katrina through the Primary Care Access and Stabilization Grants. Under the waiver special terms and conditions, providers must be currently licensed and be operational and serving waiver eligible recipients on October 1, 2010. Any clinic seeking to reestablish operations as a GNOCHC clinic after October 1, 2010, must obtain approval from CMS. Providers are also required to report infrastructure investments to DHH through quarterly reports.

DHH failed to establish and implement adequate controls to ensure CMS approved special terms and conditions for provider eligibility and payment methodology and provider monitoring was followed.

DHH management should establish, implement, and enforce adequate controls to ensure only appropriate payments are made to eligible providers. Management concurred with the finding and outlined a plan of corrective action (see Appendix A, pages 2-3).

Ineffective Internal Audit Function

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. In January 2011, DHH eliminated all but one internal audit position. The one remaining auditor retired in February 2011, leaving the position vacant as of June 30, 2011, and issued only two internal audit reports during the fiscal year.

Act 11 of the 2010 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 (\$717,446,608) and revenues (\$6,885,979,010), 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).

The recommendations in this letter represent, in our judgment, those most likely to bring about beneficial improvements to the operations of DHH. The varying 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.

This letter is intended for the information and use of DHH and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this letter is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is written in a cursive style with a large, prominent initial "D".

Daryl G. Purpera, CPA, CFE
Legislative Auditor

AHC:WDG:EFS:THC:dl

DHH 2011

APPENDIX A

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



State of Louisiana
Department of Health and Hospitals
Bureau of Health Services Financing

November 1, 2011

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

Audit Finding: Improper Payments to Non-Emergency Medical Transportation Service Provider

Dear Legislative Auditor Purpera:

In response to your offices finding titled "Improper Payments to Non-Emergency Medical Transportation (NEMT)", the Bureau of Health Services Financing has reviewed the 82 claims referenced in the finding and we concur with the finding and recommendations from your office.

As a result of this finding, the Rate and Audit Section (Randy Davidson, Section Chief) within the Bureau of Health Services Financing is reviewing the NEMT policies and regulations to determine if any updates or changes are warranted. The Rate and Audit Section will also be holding stakeholder meetings with providers in the next few months and will remind the providers of the importance of proper documentation and that only appropriate claims are to be submitted for reimbursement. This corrective action will be completed by March 31, 2012.

The Bureau of Health Services Financing will also perform the necessary steps to repay the \$1,961 of questioned Federal Funds to the Centers for Medicare & Medicaid Services (CMS). This repayment will occur on the quarterly CMS-64 expenditure report and will occur as soon as the Federal Government assigns an audit number to this finding.

If you have any questions or need any additional information about this matter, please contact Jeff Reynolds, Deputy Medicaid Director at 225-342-6043 or by e-mail at jeff.reynolds@la.gov.

Sincerely,


Don Gregory
Medicaid Director

c: Jerry Phillips, Undersecretary
Jeff Reynolds, Deputy Medicaid Director
Randy Davidson, Section Chief



State of Louisiana
Department of Health and Hospitals
Bureau of Health Services Financing

December 1, 2011

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

**Audit Finding: Improper Payments to Greater New Orleans Community Health Connection
Waiver Service Providers**

Dear Legislative Auditor Purpera:

In response to your office's finding titled "Improper Payments to Greater New Orleans Community Health Connection Waiver Service Providers (GNOCHC)", the Department of Health and Hospitals (DHH) has reviewed the 32 payments to the 17 providers referenced in the finding and we concur with the finding and recommendations from your office.

As a result of this finding, the Center for Health Care Innovation and Technology (Jen Steele, Program Manager) has been designated as the individual responsible for performing the identified corrective actions. The following are the correct actions that DHH will take as a result of this finding:

- For the providers identified as not having an application with an effective date of October 1, 2010, DHH will seek approval from the Centers for Medicare and Medicaid Services (CMS) for these providers to operate as a GNOCHC provider.
- For the provider enrollment forms that did not have a license number, for the provider types that are licensed by DHH we will add the license number to the provider enrollment form and include a copy of the license in the provider enrollment file.
- For the urgent sustainability payment amounts that were not properly calculated, these mathematical errors will be corrected when DHH reconciles the interim payment amounts against the actual encounter rate, targeted and incentive payments that would have been made to these GNOCHC providers.
- For the two providers that have left the program, it has yet to be determined if any funds are owed back to the State. If it is determined that these providers owe these funds, DHH will proceed with the appropriate legal actions to pursue the return of any overpaid funds.
- For the provider that did not submit the required quarterly report, DHH has already received this report.

The corrective action listed above is currently projected to be completed by March 31, 2012.

Improper Payments to GNOCHC Providers
December 1, 2011
Page Two

If you have any questions or need any additional information about this matter, please contact W. Jeff Reynolds, Deputy Medicaid Director at 225-342-6043 or by e-mail at jeff.reynolds@la.gov.

Sincerely,

A handwritten signature in black ink, appearing to read "Don Gregory". The signature is stylized with a large initial "D" and a prominent "G".

Don Gregory
Medicaid Director

c: Jerry Phillips, Undersecretary
Carol H. Steckel, MPH, Director of Center for Health Care Innovation and Technology
W. Jeff Reynolds, Deputy Medicaid Director
Jen Steele, Program Manager



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

October 21, 2011

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

RE: Department of Health and Hospitals
Internal Audit Function – Finding

Dear Mr. Purpera:

This letter will serve as response to your office's finding regarding the Internal Audit Function for the Department of Health and Hospitals (DHH). The Department concurs that an effective internal audit function to (1) examine, evaluate, and report on its internal controls, and (2) evaluate compliance with policies and procedures to ensure adequate controls, should be in place within the Department.

The Department is actively engaged in acquiring a professional services contract for internal auditing services/functions. This contract and the services provided under such contract will be monitored by the DHH Bureau of Legal Services. The Department anticipates having the contract in place by the end of the calendar year. Kimberly Humbles, General Counsel, will be the contact person for this matter; you may contact her at (225) 342-2556.

Thank you for your attention to this matter.

Sincerely,


Jerry Phillips
Undersecretary