

Audit Report

**Department of Human Resources
Local Department Operations**

August 2009



**OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY**

-
- This report and any related follow-up correspondence are available to the public through the Office of Legislative Audits at 301 West Preston Street, Room 1202, Baltimore, Maryland 21201. The Office may be contacted by telephone at 410-946-5900, 301-970-5900, or 1-877-486-9964.
 - Electronic copies of our audit reports can be viewed or downloaded from our website at <http://www.ola.state.md.us>.
 - Alternate formats may be requested through the Maryland Relay Service at 1-800-735-2258.
 - The Department of Legislative Services – Office of the Executive Director, 90 State Circle, Annapolis, Maryland 21401 can also assist you in obtaining copies of our reports and related correspondence. The Department may be contacted by telephone at 410-946-5400 or 301-970-5400.
-



Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Bruce A. Myers, CPA
Legislative Auditor

August 4, 2009

Delegate Steven J. DeBoy, Sr., Co-Chair, Joint Audit Committee
Senator Verna L. Jones, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Department of Human Resources (DHR) – Local Department Operations (LDO) for the period beginning November 1, 2004 and ending April 3, 2008. LDO is a separate budgetary unit consisting of the funds appropriated for the operating costs of the State’s 24 local departments of social services (LDSS), as well as for the various assistance activities (such as food stamps and temporary cash assistance) they administer. Generally, the executive director at each LDSS reports to DHR’s Secretary.

Our audit disclosed that, as mandated by State law, DHR performed periodic audits of the 24 LDSSs. Our review of the most recent audit reports for the 24 local departments prepared by DHR’s Office of the Inspector General (OIG) disclosed that the reports collectively included 348 audit findings. However, the audits were not performed in accordance with applicable professional auditing standards, did not fully address significant risks, and were not performed every two years, as required.

Because of the OIG audit quality concerns, we conducted field visits of three LDSSs and audited several significant programs and fiscal operations at each. We noted control issues related to the foster care and adoption programs. For example, controls over disbursements were inadequate and federal fund reimbursements were not maximized. We also noted deficiencies with respect to recipient eligibility determinations for certain programs, and internal control weaknesses regarding bank accounts, purchases, and disbursements.

An Executive Summary of our findings can be found on page 5. DHR's response to this audit is included as an appendix to this report. We wish to acknowledge the cooperation extended to us during the course of this audit by DHR and the various LDSSs.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor

Table of Contents

Executive Summary	5
Background Information	7
Agency Responsibilities	7
Audit Approach	8
Status of Finding From Preceding Audit Report	9
Findings and Recommendations	11
<u>DHR Audits of Local Departments of Social Services</u>	
Office of the Inspector General (OIG)	
Finding 1 – Audits Were Not Performed in Accordance With Auditing Standards	11
Finding 2 – OIG Audits Did Not Fully Address Significant Risks	12
Finding 3 – Audits Were Not Performed Timely as Required by State Law	13
<u>OLA Findings at Selected Local Departments of Social Services</u>	
Foster Care and Adoption Programs	
Finding 4 – Adequate Controls Were Not Established Over Disbursements	14
Finding 5 – Eligibility Determinations for Federal Reimbursement Were Not Always Adequately Performed	15
Finding 6 – Recurring Monthly Payments Were Not Approved and Overpayments Were Not Always Pursued	16
Finding 7 – Differences Between the Automated Payment Systems Were Not Fully Reconciled	17
Finding 8 – Adoption Eligibility Reconsiderations Were Not Adequately Performed and Certain Payments Were Improper	18
Medical Assistance (Medicaid) Recipient Eligibility	
Finding 9 – Certain Medicaid Eligibility Determinations Were Not Always Proper and Documented, and Available Online Tools Were Not Used to Identify Undisclosed Assets	20
Bank Accounts	
Finding 10 – Internal Controls Over Disbursements Were Inadequate	21
Finding 11 – Internal Controls Over Collections Were Inadequate	22

Purchases and Disbursements	
Finding 12 – Proper Internal Controls Were Not Established Over Transactions Processed Through the State’s Accounting System	23
Finding 13 – Vendor Payments Totaling \$1.3 Million Were Not Subject to Control Agency Approvals and Were Not Properly Documented	24
Audit Scope, Objectives, and Methodology	27
Agency Response	Appendix

Executive Summary

Legislative Audit Report on Department of Human Resources – Local Department Operations (LDO) August 2009

DHR Audits of Local Departments of Social Services

- **Audits of the local departments of social services (LDSSs) conducted by DHR’s Office of the Inspector General (OIG) were not performed in accordance with auditing standards, and did not fully address significant risks. In addition, these audits were not performed every two years, as required by State law.**

The OIG should fully address significant audit risks, and should perform audits in accordance with auditing standards every two years as required.

OLA Findings at Selected Local Departments of Social Services

- **Internal controls had not been established over foster care and adoption payments. In addition, foster case eligibility determinations and redeterminations for federal reimbursement were not always performed. Furthermore, recurring foster care and adoption payments were not approved and overpayments were not always pursued for collection.**

DHR should ensure that the LDSSs establish the recommended controls over foster care and adoption payments. DHR should also ensure that the LDSSs perform eligibility determinations and redeterminations, and that recurring foster care and adoption payments are approved. DHR should also take action, including withholding future payments, when applicable, to collect overpayments from providers.

- **Medical Assistance (Medicaid) eligibility determinations for long term care recipients were not always proper and documented. In addition, an available online tool was not used to identify undisclosed assets.**

DHR should ensure that eligibility determinations performed by the LDSSs are documented and properly made. DHR should also ensure that the LDSSs use an available online resource to identify undisclosed real property.

- **Controls over bank account disbursements and collections were inadequate. For example, at one local department, the employee who prepared the bank reconciliations had access to blank checks and to the check signing machine.**

DHR should ensure that the LDSSs establish adequate controls over bank account disbursements and collections.

- **Control deficiencies were also noted over purchases and disbursements. For example, numerous employees at two LDSSs could process disbursements on the State's accounting system without independent approvals. In addition, payments totaling \$1.3 million to one vendor were not subject to control agency approvals and lacked documentation to substantiate the propriety of the amounts billed.**

DHR should ensure that the LDSSs address the noted control deficiencies over purchases and disbursements.

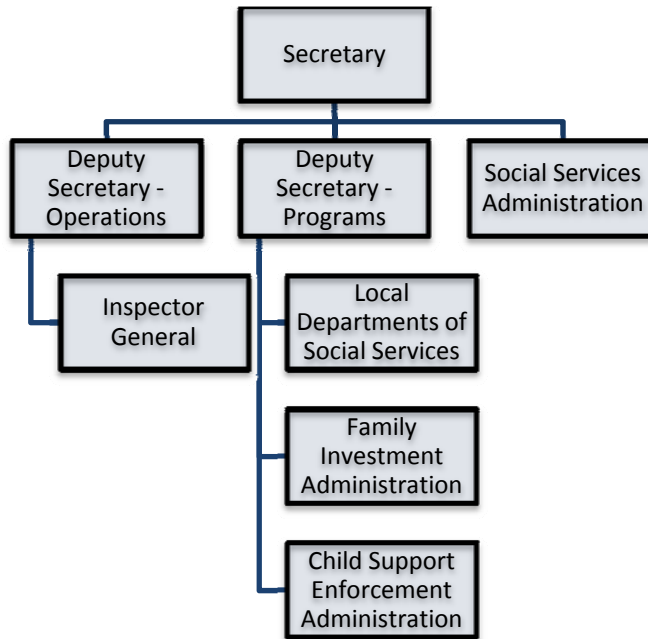
Background Information

Agency Responsibilities

Local Department Operations (LDO) is a separate budgetary unit of the Department of Human Resources (DHR). It consists of the funds appropriated for the various activities administered by the State's 24 local departments of social services (LDSS). These activities primarily involve the various DHR assistance programs (such as food stamps and temporary cash assistance) administered by the LDSSs under policies promulgated by other units within DHR. According to the State's records, its fiscal year 2008 expenditures were approximately \$1.4 billion, which included approximately \$900 million in assistance program expenditures and \$500 million in operating expenditures (primarily employee salaries and benefits).

DHR is organized into five units, one of which is the LDO. The remaining four units (Office of the Secretary, Child Support Enforcement Administration, Family Investment Administration, and Social Services Administration) are audited and reported upon separately by our office. Generally, these four units direct the activities (including public assistance programs) that are administered statewide by the 24 LDSSs; however, the executive director of each LDSS reports to DHR's Secretary and Deputy Secretary for Programs, as depicted in the following organization chart.

Department of Human Resources Organization



Note: This is a simplified organizational chart. A number of units and positions have been omitted, which do not have a direct bearing on this audit. For example, the Deputy Secretary for Operations is also responsible for the Department's administrative operations, budget and finance, human resources, and information technology.

Source: Maryland Manual

Audit Approach

Section 3-602 of the Human Services Article of the Annotated Code of Maryland requires DHR to conduct, or contract for, a financial and compliance audit of each LDSS at least every two years. During our current audit period, all of the audits of the LDSSs were conducted by DHR's Office of the Inspector General (OIG). However, based on our review of the audit reports and the related working papers of certain audits, we concluded that, because of audit quality concerns, we were unable to rely on the OIG's audits. Furthermore, our audits of other DHR units, including the Family Investment Administration and the Social Services

Administration, also included findings applicable to LDO operations with respect to the programs these units administer. Consequently, we conducted individual audits of three large LDSSs (based on the level of program expenditures and the number of State employees), focusing on certain significant activities, as noted in Table 1 below.

Table 1 Legislative Audit Field Visit Locations and Areas Reviewed			
Functional Area Reviewed During Legislative Audit Field Visit to LDSS	Baltimore City	Baltimore County	Prince George's County
Bank Accounts and Assistance Payments	●	●	●
Cash Receipts	●	●	●
Foster Care and Adoption	●	●	
Accounts Receivable	●	●	
Federal Funds	●	●	
Purchases and Disbursements	●		●
Medicaid Eligibility	●		●
Temporary Cash Assistance	●		●

Status of Finding From Preceding Audit Report

Our audit included a review to determine the status of the one recommendation contained in our preceding audit report dated April 14, 2005. We determined that DHR satisfactorily addressed this item.

Findings and Recommendations

DHR Audits of Local Departments of Social Services (LDSSs)

Office of the Inspector General

Background

The DHR Office of the Inspector General (OIG) is responsible for investigating reported instances of welfare, provider, vendor, and employee fraud or abuse, as well as conducting audits of the LDSSs and of other DHR programs and activities. The most recent audit reports for each of the 24 LDSSs collectively resulted in 348 audit findings in areas such as social services, public assistance, accounts receivable, computer security, bank accounts, and community services. State law requires that the OIG conduct its audits in accordance with professional standards promulgated by the Institute of Internal Auditors. As of December 31, 2008, the OIG had 51 budgeted positions. Of these positions, 4 staff auditors, 2 audit supervisors, and one director were dedicated to the LDSS audits.

Finding 1

The OIG's audits of the LDSSs were not performed in accordance with applicable auditing standards, as required by State law.

Analysis

The OIG did not perform LDSS audits in accordance with auditing standards issued by the Institute of Internal Auditors (IIA), as stated in the related audit reports, and as required by State law. These standards establish requirements for internal auditing including planning audits, conducting fieldwork, maintaining independence, and reporting. Non-compliance with these standards could impact the reliability of the audit work and the findings. We reviewed the completed audit reports and related audit documentation for two of the LDSSs that we selected for audit; the OIG had not issued a current audit report for the remaining LDSS we audited. Some of the deficiencies we found during our review are noted below:

- Audit work papers, including audit exceptions, were frequently not approved by supervisory personnel and, in many instances, lacked sufficient evidence to support exceptions. The lack of supervisory reviews over critical processes adversely affects the quality of the work, which can lead to improper findings and conclusions, such as unreported significant control deficiencies. For example, an OIG internal control questionnaire completed for one LDSS, which had not been reviewed and approved by supervisory personnel,

indicated an improper separation of duties yet no exception condition was noted or reported. In addition, one audit report noted eight exceptions related to the lack of certain case records while the related audit documentation only indicated seven exceptions. IIA standards require that audits must be properly supervised to ensure that audit objectives are achieved and that relevant information to support the conclusions is documented.

- The OIG could not provide us with a current external assessment of its audit quality. Such assessments (also referred to as peer reviews) are required at least every five years by IIA auditing standards. The OIG advised that no such assessment had been made of its audits since 1999. Since, for 10 years, the OIG has been required by law to conduct audits under IIA standards, at least one such review should have been completed by March 2009. These assessments provide a periodic independent evaluation of the OIG's compliance with auditing standards.
- The OIG's audit documentation lacked evidence of risk-based audit planning. Instead, the OIG generally completed the same standard audit program steps for all LDSSs. (See additional comments regarding risk-based planning in Finding 2). Risk-based audit planning is required by IIA standards and would help ensure that the OIG's limited resources are focused on the areas with the most risk, based on levels of activity or program involvement encountered at each LDSS. In addition, the use of risk-based audit planning could increase efficiencies and help eliminate the OIG's audit backlog (see Finding 3).

Recommendation 1

We recommend that the OIG perform the LDSS audits in accordance with IIA Standards, as required by State law.

Finding 2

The OIG's audits of the LDSSs did not fully address significant risks.

Analysis

The OIG's audits of the LDSSs did not provide sufficient audit coverage of certain critical areas with significant risk. Specifically, the OIG did not identify all significant risks to ensure they were included within the scope of its audits.

For example, Medical Assistance (Medicaid) eligibility decisions for applicants who applied only for Medicaid (and not for other public assistance programs) were not reviewed during the OIG audits, even though these determinations were made by LDSS employees. We were advised by the OIG that these

determinations were not audited because there were no DHR-provided benefits involved, only Department of Health and Mental Hygiene (DHMH) benefits.¹ Consequently, there was a lack of assurance that effective processes were in place to properly determine eligibility. According to the State's records, during fiscal year 2008, total payments for recipients who only received Medicaid benefits totaled \$1.3 billion.

We also noted that the OIG did not determine if the LDSSs were using the proper payment rates to reimburse foster care group home providers, which could result in overpayments to these providers. According to DHR's records, payments to these foster care group home providers totaled approximately \$124 million during fiscal year 2008.

Recommendation 2

We recommend that the OIG identify all significant risks to State programs under LDOs and ensure that these risks are addressed within the scope of LDSS audits.

Finding 3

Audits were not performed every two years as required by State law.

Analysis

Audits were frequently not performed timely. As of April 3, 2008, the most recent audits, which had been completed for eight jurisdictions, had audit period ending dates that were more than three years old. The most recent audit period ending date for two of these jurisdictions was more than four years ago. Significant delays in the completion of audits hinders DHR's ability to monitor and exercise sufficient oversight over the LDSSs and increases the risk that instances of program non-compliance and conditions that allow for errors, abuse, or fraud could exist and remain uncorrected for extended periods. The delays in completing audits were a factor in our decision to perform audit work at the LDSSs.

After our initial assessment of the timely completion of audits, we subsequently noted that improvement had been made. Specifically, as of February 7, 2009, only one jurisdiction's most recent audit period ending date was more than three years old.

¹ We confirmed with the DHMH – Office of the Inspector General that it did not audit such eligibility determinations, because such determinations were rendered by DHR employees over whom DHMH has no explicit authority.

Recommendation 3

We recommend that the OIG conduct audits of the LDSSs biennially, as required.

OLA Findings at Selected Local Departments of Social Services

Foster Care and Adoption Programs

Background

The LDSSs arrange for placement of children in foster care and adoptions and are responsible for determining recipient eligibility for federal assistance to help cover the cost of foster care, thereby supplanting the use of State funds. The federal program (Title IV-E of the Social Security Act) provides for federal reimbursement for a portion of the maintenance and administrative costs of foster care for children who meet specified requirements. According to DHR's records, for the two LDSSs where we reviewed procedures and controls, foster care and adoption programs expenditures totaled approximately \$223 million during fiscal year 2008, of which \$54 million was federally funded. Statewide foster care and adoption program expenditures totaled \$349 million during fiscal year 2008.

Finding 4

Adequate controls had not been established to ensure that foster care and adoption payments were proper.

Analysis

One of the two LDSSs audited had not established adequate controls over its automated foster care and adoption payment system. Specifically, three payment supervisors had the capability to initiate, process, and approve foster care and adoption payments in the payment system without independent approval. Furthermore, these supervisors could also establish new children and providers, as well as modify existing critical data (such as name and mailing addresses of providers, payment amounts) in the payment system without obtaining independent approval. Consequently, foster care and adoption payments were more susceptible to errors and fraud. During fiscal year 2008, the LDSS's foster care and adoption expenditures totaled approximately \$188 million.

Recommendation 4

We recommend that DHR ensure that the online system capabilities are adjusted at all LDSSs to ensure that employees who approve foster care and adoption payments cannot initiate and modify these payments and cannot add new children or providers to the system.

Finding 5

Title IV-E initial eligibility determinations were not always performed and eligibility redeterminations were not performed timely as required.

Analysis

At one of the two LDSSs audited, there were no procedures to ensure that Federal Title IV-E initial eligibility determinations had been performed for all children placed into foster care, and eligibility redeterminations were not performed timely as required. Title IV-E eligibility determinations are a necessary step to move eligible children from a State-funded foster care program (where they are initially placed) into a program that is funded jointly with federal and State funds, with the federal share provided under Title IV-E. Consequently, the LDSS did not maximize federal funding for all eligible children. For example, we noted the following conditions:

- We compared the log of new foster care children for the three-month period ended August 31, 2008 to a listing of Title IV-E eligibility determinations performed during the same period. We noted that 32 of the 227 children on the log of new foster care children were not listed on the Title IV-E eligibility listing; therefore, it was likely that the eligibility determinations had not been performed for those children as of August 31, 2008. Accordingly, we tested 14 of these 32 children and noted that eligibility determinations had still not been performed for 6 of the children as of November 6, 2008. If these six children are subsequently determined to be Title IV-E eligible, federal funding of \$16,923 could be recovered for the period through September 2008. For the remaining eight children, subsequent determinations were performed and it was determined that three children were eligible for Title IV-E funds. However, the federal funds for the period from June 2008 through October 2008 totaling \$13,302 have not yet been recovered because of coding errors in the automated system.
- As of October 29, 2008, for 7 of the 25 case files we tested of children previously determined to be eligible for Title IV-E funding, current redeterminations had not been performed for periods ranging from 8 to 20 months after the most recent redetermination period ending date. DHR policy

requires that, once a child is placed in foster care, a Title IV-E eligibility redetermination shall be made on a semi-annual basis for all eligible children.

Recommendation 5

We recommend that DHR ensure that all of the LDSSs develop procedures to ensure

- a. that Title IV-E initial eligibility determinations are performed and documented for all children in foster care,**
- b. that eligibility redeterminations are performed semi-annually as required, and**
- c. that all applicable federal funding is recovered.**

Finding 6

Recurring monthly payments were not approved, resulting in overpayments. In addition, these overpayments at one LDSS were not adequately pursued.

Analysis

Recurring monthly payments to foster care and adoption families made by the three LDSSs audited were not approved by the case managers. Consequently, the likelihood of overpayments (such as to families after services have been discontinued) being made without detection is increased. Specifically, payment authorization documentation was only used to establish, change, or terminate monthly payments to the families. Therefore, recurring monthly payments to families for which the level of care did not change were not approved by the case managers. Adoption and foster care families continue to receive monthly payments once established unless removed. These payments should be approved monthly to prevent overpayments. During fiscal year 2008, payments made by these three LDSSs to foster care and adoption families totaled approximately \$248 million.

In addition, when provider overpayments to foster care and adoption families as well as to other providers were detected at one LDSS, collection efforts were not always comprehensive. Provider overpayments that were more than three months old totaled approximately \$370,000 at this LDSS as of December 16, 2008. For example, our test of 10 of these delinquent overpayment accounts, totaling approximately \$69,000, disclosed that collection efforts for 6 accounts, totaling \$24,000, were inadequate. Although no payments had been received for periods from 4 to 8 months, the LDSS did not send written demands for payment and did not submit the accounts to the State's Central Collection Unit (CCU). Our review also disclosed that the LDSS did not always withhold subsequent payments to the providers with delinquent balances. In this regard, we compared the LDSS'

delinquent overpayments records as of December 16, 2008 to a listing of provider payments made during October 2008. This comparison identified 57 providers with delinquent balances totaling \$86,000 (which had been delinquent for periods ranging from 4 months to 5 years) that collectively received payments exceeding \$3.4 million in October 2008 that could have been, but were not, offset to recover most of these overpayments. For example, one provider, whose balance of \$3,853 had been delinquent for 17 months, was paid \$302,842 in October 2008. We were advised by the LDSS management that other than requesting providers to allow an offset of overpayments against future payments, the LDSS rarely pursued withholding future payments.

Recommendation 6

We recommend DHR ensure

- a. that recurring payments to foster care and adoption families are approved by the applicable case managers at all of the LDSSs; and**
- b. that adequate collection efforts are taken, including withholding future payments, when applicable, at all of the LDSSs for providers that have delinquent balances.**

Finding 7

Differences between the foster care and subsidized adoption payment data maintained by two LDSSs and the statewide case management system data were not fully reconciled.

Analysis

At the two LDSSs audited, we noted that the differences between the foster care and subsidized adoption payment² data and the corresponding statewide child welfare information system data (MD CHESSIE) were not fully reconciled. For example, at one LDSS, in September 2008, foster care and adoption payments to institutional and private foster care providers per the payment system (\$14.3 million) exceeded the corresponding amounts per MD CHESSIE (\$11.1 million) by \$3.2 million. The LDSSs advised us that they do not have sufficient personnel resources to investigate and resolve all of the differences.

We were advised that DHR plans to use MD CHESSIE to initiate and process foster care and adoption payments in the near future. Toward that end, and to ensure the reliability of the data in MD CHESSIE, DHR requires that its LDSSs

² Presently, each LDSS generates and records foster care and subsidized adoption disbursements from its own bank account.

reconcile their payment data with the corresponding amounts independently determined by MD CHESSIE on a monthly basis.

Recommendation 7

We recommend DHR ensure

- a. that the differences between foster care and subsidized adoption payment system data and MD CHESSIE are promptly investigated and resolved, and**
- b. that supervisory personnel review and approve any resulting corrections and that such reviews be documented at all of the LDSSs.**

Finding 8

Adoption eligibility reconsiderations were not adequately performed, as required, and payments were improperly made for individuals over 21 years of age.

Analysis

One of the two LDSSs audited did not adequately perform adoption eligibility reconsiderations in accordance with State regulations. In addition, payments were improperly made for certain individuals over 21 years of age. Payments made to adoptive parents for the cost of care totaled approximately \$4.5 million during fiscal year 2008 for this LDSS. Our review and related tests disclosed the following conditions:

- According to the LDSS's July 29, 2008 automated report of open subsidized adoption cases, which we determined to be reliable, eligibility reconsiderations were not always performed timely. For 69 of the 611 cases listed in the report, reconsiderations had not been performed for periods exceeding six months after the required due dates, with 43 experiencing at least a year's delay. State regulations require that reconsiderations be performed annually to determine if adoptive parents remain eligible to receive the subsidy payments.
- Our test of 20 cases of adopted children who were at least 18 years old disclosed that, in 13 instances, documentation was either insufficient or not on file to establish that the children met the necessary requirements for their adoptive parents to remain eligible for the adoption subsidy. As of November 30, 2008, payments, totaling approximately \$96,000, were made to the adoptive parents of these 13 children, who were between 18 and 20 years old. State regulations require that children who have reached the age of 18 must be attending school or have a documented disability for their adoptive parents to

remain eligible for the subsidy. According to the LDSS's records, as of July 2008, there were 101 children 18 years old or older for whom their adoptive parents received the subsidy.

- Our test of 15 foster care and adoption subsidy payments made in June 2008, disclosed that 6 of those payments, which were related to adoptions, were made for children who no longer met the age requirement to remain eligible for the subsidy. Subsidy payments totaling approximately \$7,000 were made after these six children reached the age of 21. State regulations require that adoption subsidies be discontinued once a child reaches the age of 21.

Recommendation 8

We recommend that DHR ensure that, at all LDSSs,

- a. adoption eligibility reconsiderations are performed annually and documented, as required by State regulations, and that any overdue reconsiderations be performed immediately to determine whether the adoptive parents are still eligible to receive the subsidy; and**
- b. payments to the adoptive parents of a child no longer eligible be discontinued immediately (such as through a system edit) and any resulting overpayments (including the payments made on behalf of the aforementioned 19 individuals) be recovered.**

Medical Assistance (Medicaid) Recipient Eligibility

Background

The State's Department of Health and Mental Hygiene (DHMH) and DHR maintain an agreement which assigns responsibility to DHR for determining applicants' eligibility for participation in the Medical Assistance Program (Medicaid). Applicant eligibility for participation in Medicaid is primarily determined by the various LDSSs. Generally, if a recipient qualifies for Temporary Cash Assistance, the recipient also qualifies for Medicaid; however, there are many situations in which recipients only apply for, or qualify for, certain aspects of Medicaid (such as long-term care), and not DHR-supplied benefits. In these cases, the recipients still apply for these services at the LDSS. According to DHR's records for fiscal year 2008, on a statewide basis, reimbursements paid to recipients who received only Medicaid benefits totaled \$1.3 billion, which included \$762 million for recipients in long-term care facilities.

Finding 9

Medicaid eligibility determinations for long-term care recipients were not always proper and documented at one LDSS. In addition, an available online resource was not used to identify certain undisclosed assets, which can affect eligibility.

Analysis

Our test of 25 recipients that received Medicaid long-term care benefits in fiscal year 2008 at the one LDSS tested disclosed that the LDSS did not properly determine the eligibility for one recipient and did not document the eligibility determination for another recipient. Specifically, for one recipient, eligibility was granted even though the recipient's resource limit of \$2,500 (as specified by State regulations) during the application month had been exceeded. Furthermore, during the first annual redetermination process for this recipient, the caseworker did not perform the resource calculation and did not obtain required documentation (such as copies of bank statements) to determine if the recipient was eligible for the continuation of Medicaid benefits. For the other Medicaid recipient, no documentation was on file to substantiate that all relevant financial data were obtained before determining the individual was eligible for long-term care medical assistance. Missing documentation included bank account statements, life insurance policy cash surrender value, and statements of monthly social security benefits. We estimated that the State paid \$83,000 for the cost of care for these two recipients for up to 12 months in which they may have been ineligible for such benefits.

In addition, we noted that LDSS intake workers at the two LDSSs included in our review did not use online real property records to determine the existence of real property owned and/or recently transferred by the applicant when determining resource eligibility. State Regulations prohibit a recipient in a long-term care facility from receiving benefits in any month in which their financial resources exceed \$2,500. Consequently, the failure to perform this search for real property may result in the Medicaid applicant improperly receiving long-term care medical assistance.

Recommendation 9

We recommend that DHR ensure, at all LDSSs,

- a. that Medicaid eligibility determinations are made in accordance with State regulations and are documented, and**
- b. that available online real property records are used to identify any undisclosed critical financial information necessary in determining Medicaid eligibility.**

Bank Accounts

Background

The LDSSs maintain various bank accounts to pay for certain administrative and program expenditures (for example, foster care payments). DHR headquarters primarily advances the funds for these accounts. According to the three LDSSs' records included in our audit, disbursements from the bank accounts totaled approximately \$285 million and collections totaled approximately \$298 million during fiscal year 2008, which includes electronic fund transfers of \$260 million.

Finding 10

Internal controls over bank account disbursements were inadequate.

Analysis

Internal controls over disbursements at one of the three LDSSs audited, totaling approximately \$43 million during fiscal year 2008, were inadequate.

Consequently, unauthorized payments could be processed without detection. For example, we noted the following conditions:

- Seven employees who had unrestricted access to the blank check stock also had unrestricted access to the check signing machine. Additionally, one of these employees also prepared the monthly bank reconciliations and the requests to replenish one of the bank accounts.
- We noted that the bank reconciliations and account replenishment requests sent to DHR were approved by supervisory personnel without reviewing appropriate supporting documentation to establish the propriety of these documents.
- The authorized check signer did not account for the numeric sequence of checks issued within each payment batch that would ensure all disbursements had been submitted for approval.

We question the necessity of each LDSS preparing and generating disbursements from separately maintained bank accounts, when this process is handled centrally for most Executive branch agencies by the Comptroller of the Treasury's General Accounting Division (GAD). In addition, since these bank accounts were not handled centrally by GAD, disbursements from these accounts were not subject to the State's intercept program, which is designed to intercept debts owed to the State—including delinquent taxes—from payments to vendors and individuals. We were advised by the DHR management that the foster care payments, which

represent the largest component of LDSS disbursements, will soon be processed through the State's child welfare information system (MD CHESSIE) which will significantly reduce the volume of disbursements through these accounts.

Recommendation 10

We recommend that DHR determine if the LDSS bank accounts can be eliminated. If separate bank accounts continue to be maintained, we recommend that DHR ensure that proper internal controls are established over bank account disbursements at all LDSSs. We made detailed recommendations to the LDSSs which, if implemented, should provide the necessary controls. We also advised them how to accomplish the necessary separation of duties using existing personnel.

Finding 11

Internal controls over bank account collections were inadequate.

Analysis

Internal controls over collections received at two of the three LDSSs audited for deposit into their bank accounts were inadequate; related collections (excluding wire transfers) totaled approximately \$24 million during fiscal year 2008. Consequently, assurance was lacking that all cash receipts were deposited. These receipts primarily represented Supplemental Security Income reimbursements on behalf of foster care children and recoupment of foster care and adoption overpayments. Specifically, we noted the following conditions:

- At one LDSS, the employee who verified that recorded collections were deposited had routine access to the collections prior to deposit. According to its records, cash receipts at this LDSS, excluding wire transfers, totaled approximately \$18 million during fiscal year 2008.
- At another LDSS, procedures were established to independently verify, on a daily basis, that collections received were deposited; however, these verifications were not always documented. For example, our review of the cash receipts logs for fiscal years 2007 and 2008 disclosed that no documentation was on file for 17 of the 24 months to substantiate that recorded collections were independently verified to deposit. According to its records, cash receipts at this LDSS, excluding wire transfers, totaled approximately \$6 million during fiscal year 2008.

Recommendation 11

We recommend that DHR ensure that proper internal controls are established over bank account collections and deposits at all LDSSs. Specifically, we recommend that employees independent of the cash receipts process verify that recorded collections were deposited, and that such verifications be documented. We advised the aforementioned LDSSs how to accomplish the necessary separation of duties using existing personnel.

Purchases and Disbursements

Finding 12

Proper internal control was not established over purchasing and disbursement transactions.

Analysis

The security features available on the State's Financial Management Information System (FMIS) were not fully used to establish proper internal control over certain purchasing and disbursement transactions.³ For example, for the two LDSSs included in our review, 120 employees could process vendor invoices without independent approvals, 26 of which could also release these transactions to the Comptroller of the Treasury's General Accounting Division for payment. Furthermore, 5 of these 120 employees could add vendors to FMIS.

Additionally, 54 of the 120 aforementioned employees could also redirect payments to a vendor other than the one named on the related purchase order. This capability is significant because changing the name of the vendor when processing an invoice could be used to circumvent procurement and/or budgetary requirements, could result in erroneous or duplicate payments, could prevent the proper tracking of vendor payments, and could be used to process fraudulent transactions.

As a result, unauthorized transactions could be processed which may not be readily detected. According to the State's accounting records, during fiscal year 2008, these two LDSSs used FMIS to process disbursements totaling approximately \$35 million.

³ As noted elsewhere, the LDSSs use DHR systems to process and disburse most benefit payments. The LDSSs use FMIS primarily for payment of their general operating expenses.

Recommendation 12

We recommend that the available FMIS security features be fully used by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions at all LDSSs.

Finding 13

Payments totaling \$1.3 million to one vendor for foster care transportation services were not subject to control agency approvals and lacked sufficient documentation to substantiate the propriety of amounts billed.

Analysis

According to one LDSS' records, payments for foster care transportation services totaling \$1.3 million were made to a local taxi cab company during fiscal years 2007 and 2008 without obtaining control agency approvals. In addition, authorizations for the cab rides were not obtained and sufficient documentation was not maintained to substantiate that services paid for were actually received. Specifically, we noted the following conditions:

- The LDSS used the same taxi cab company on a case-by-case basis rather than consolidating the procurement of transportation services. Because no formal contract was executed, these services were not subject to control agency approvals as required by State Procurement Regulations for service contracts valued at \$25,000 or greater. Furthermore, because taximeter rates charged by the company are set by the Public Service Commission, the use of a taxi cab company prevented the LDSS from obtaining potentially lower costs (from a private transportation provider) through a competitive bid process.
- The LDSS did not maintain sufficient documentation to provide assurance that payments to the taxi-cab company were for actual cab rides performed and authorized. Specifically, we tested charges for 250 cab rides provided to 10 foster care children, totaling \$17,323, from the cab company's invoice dated March 10, 2008. Our test disclosed that, for 236 rides, the case workers' original request forms authorizing the rides could not be located, and the 14 request forms which were located were not approved by management personnel. We also noted that the cab drivers' receipts were not on file for any of the 250 cab rides to document the actual delivery of services and the related cost.

Recommendation 13

We recommend that DHR ensure that

- a. transportation services are competitively bid to ensure services are obtained at the lowest possible costs,**
- b. formal written contracts are executed, and applicable State control agency approvals are obtained in accordance with State Procurement Regulations,**
- c. management personnel approve the request forms authorizing the cab rides, and**
- d. management personnel obtain and review the related supporting documentation for the amounts billed prior to making the related payments.**

Audit Scope, Objectives, and Methodology

We have audited the Department of Human Resources—Local Department Operations (LDO) unit for the period beginning November 1, 2004 and ending April 3, 2008. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine LDO's financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations. We also determined the status of the finding contained in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality and risk. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of the LDO's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

Our audit did not include certain support services provided to the LDO by the Department of Human Resources (DHR). These support services (such as payroll, maintenance of certain accounting records, and related fiscal functions) are included within the scope of our audits of DHR's Office of the Secretary and Related Units. In addition, our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of LDO's compliance with federal laws and regulations pertaining to those programs because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies, including LDO.

LDO's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

This report includes findings that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect LDO's ability to maintain reliable financial records, operate effectively and efficiently, and/or comply with applicable laws, rules, and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules, or regulations. Other less significant findings were communicated to LDO that did not warrant inclusion in this report.

DHR's response, on behalf of LDO, to our findings and recommendation is included as an appendix to this report. As prescribed in the State Government Article, Section 2-1224 of the Annotated Code of Maryland, we will advise DHR regarding the results of our review of its response.

APPENDIX

State of Maryland
Department of Human Resources



Martin O'Malley
Governor

Anthony Brown
Lt. Governor

Brenda Donald
Secretary

July 29, 2009

Bruce A. Myers, CPA
Legislative Auditor
Office of the Legislative Audits
301 West Preston Street – Room 1202
Baltimore, Maryland 21201

Dear Mr. Myers:

Thank you for the opportunity to respond to the audit findings and recommendations from the Department of Human Resources, Local Department Operations draft report for the period November 1, 2004 through April 3, 2008. Enclosed you will find the Department's response and plan of correction that addresses each audit recommendation.

If you have any questions or require additional information, please contact Mr. William E. Johnson, Jr., Inspector General, at 443-378-4060 or wjohnson@dhr.state.md.us.

Sincerely,

A handwritten signature in cursive script that reads 'Brenda Donald'.

Brenda Donald
Secretary

Enclosure

Cc: Brian Wilbon, Deputy Secretary for Operations
Stacy Rodgers, Deputy Secretary for Programs
William E. Johnson, Jr., Inspector General, DHR

Finding 1

The OIG’s audits of the LDSSs were not performed in accordance with applicable auditing standards, as required by State law.

Recommendation 1

We recommend that the OIG perform the LDSS audits in accordance with IIA Standards, as required by State law.

Department’s Response

We agree with the recommendation that all work papers be subject to proper supervisory review and that such reviews be documented. We agree that exceptions identified should be properly documented, supported, and communicated to the LDSSs. We also agree that records of all non-reportable findings are communicated to the LDSSs and retained. These processes have now been implemented.

OIG will review and revise its audit program, and incorporate risk-based audit planning. Documentation of findings and supervisory review of field work will be established and implemented.

We agree that an external quality assessment is beneficial and necessary. OIG will explore possibility of contracting with a CPA firm to conduct the assessment, as we have done in the past, based on funding availability. We will attempt to obtain funding in future budgets for this purpose. We will also explore the possibility of obtaining an external quality assessment through the Department of Budget and Management’s Maryland State Internal Auditor’s Association.

Finding 2

The OIG’s audits of the LDSSs did not fully address significant risks.

Recommendation 2

We recommend that the OIG identify all significant risks to State programs under LDOs and ensure that these risks are addressed within the scope of LDSS audits.

Department’s Response

The OIG does attempt to identify significant risks and include them within the scope of the LDSS audits. The audit program that is utilized for conducting the audits is constantly reviewed and updated based on policy changes and resultant risk analysis.

The audit cites Medicaid eligibility determinations as an area that is not audited by the OIG. We were advised that eligibility determinations are reviewed by DHR’s FIA’s Office of Quality Control, and DHMH’s MA Office of Quality Control. We will determine if these reviews are sufficient. If they are not sufficient, then, OIG will increase audit coverage in this area.

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

OIG will ensure that the LDSS's are using the proper payment rates to reimburse group home providers, and increase efforts to assure that LDSS collection efforts are effective.

Finding 3

Audits were not performed every two years as required by State law.

Recommendation 3

We recommend that the OIG conduct audits of the LDSSs biennially, as required.

Department's Response

Due to extremely limited audit resources, OIG management made the decision to go to a three year LDSS audit cycle. This is consistent with most other state audit organizations, including OLA, which normally audits on a three year basis.

OLA's recommendation to conduct biennial audits is based on Article 88-A, Section 3 of the Annotated Code of Maryland, which states that each LDSS will be audited at least every two years. DHR is currently in the process of preparing a legislative proposal to amend the law to permit a three year cycle. If we are not successful in amending the law, we will revisit this area to explore ways in which we may become compliant.

Finding 4

Adequate controls had not been established to ensure that foster care and adoption payments were proper.

Recommendation 4

We recommend that DHR ensure that the online system capabilities are adjusted at all LDSSs to ensure that employees who approve foster care and adoption payments cannot initiate and modify these payments and cannot add new children or providers to the system.

Department's Response

The Department concurs with the findings of OLA in the local departments they audited at the time of the audit. The Department also fully embraces their recommendation "that DHR ensure that the online system capabilities are adjusted at all LDSSs to ensure that employees who approve foster care and adoption payments cannot initiate and modify these payments and cannot add new children or providers to the system."

The Department notes that its statewide automated system, the Maryland Children's Electronic Social Services Information Exchange (MD CHESSIE), has been making most regular foster care and adoption payments since February 2009 for services rendered in January 2009. MD CHESSIE

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

has an elaborate and comprehensive security and approval structure which enforces a strict separation of duties. In MD CHESSIE only those with certain security profiles can perform certain functions. Edits in MD CHESSIE prevent the same person from entering and approving their own work. For example, supervisory staff cannot approve cases from their own workload, i.e. cases where the supervisor has primary or secondary responsibility for a family or a child. There are some instances where payments must be made outside of MD CHESSIE. For these situations, the Department's Division of Budget and Finance has issued instructions for the proper handling of these limited payment situations.

Finally, the Department's Division of Budget and Finance issued a revised *Fiscal Administrative Manual for Local Departments of Social Services* in February 2009 which has an extensive section on MD CHESSIE Fiscal. In addition, training of local fiscal staff was conducted by the Division of Budget and Finance for local department fiscal staff on March 13, 2009.

Finding 5

Title IV-E initial eligibility determinations were not always performed and eligibility redeterminations were not performed timely as required.

Recommendation 5

We recommend that DHR ensure that all of the LDSSs develop procedures to ensure that Title IV-E initial eligibility determinations are performed and documented for all children in foster care, that eligibility redeterminations are performed semi-annually as required, and that all applicable federal funding is recovered.

Department's Response

The Department concurs with the finding and recommendations. When FACTS was discontinued, the Title IV-E Federal Funding Unit was unable to provide monthly reports to local departments regarding Title IV-E eligibility. However, during this period and the transition to MD CHESSIE, the Title IV-E Federal Funding Unit conducted extensive training and on-site visits to review records and ensure correct eligibility/funding decisions were made.

In addition, the Department has made significant improvements in MD CHESSIE to provide several reports to identify all foster care children potentially eligible for Title IV-E benefits and also ensure that re-determinations are performed for eligible children every six months.

1. Monthly listing of children in MD CHESSIE with foster care program assignment based on the foster care entry date.
2. Monthly list of children in foster care with pending code on the IV-E status field. The purpose of this list is to provide the IV-E eligibility specialists with a complete list of cases overdue for IV-E determination.

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

3. Monthly list of Title IV-E eligible children due for six-month re-determination in the previous month. The purpose of this list is to provide the IV-E eligibility specialists with a complete list of cases due for re-determination

Furthermore, with MD CHESSIE, the Department's Child Welfare data quality will be greatly enhanced and payments will be directly linked to the child's eligibility. The ability to link eligibility to direct child payments will help to ensure that federal funds are being obtained for all eligible foster care children.

Update on Efforts to ensure that local departments identify all foster care children eligible for Title IV-E benefits and that appropriate actions had been taken to obtain these benefits.

The agency continues to provide local department eligibility specialists monthly listing of foster care cases with foster care entry dates and Title IV-E eligibility status and requesting that pending cases be completed.

The agency hired eleven (11) new eligibility staff to review all foster care cases (pending and ineligible) in the largest local departments with a plan to visit the smaller local department. The new staff on July 1, 2009 began three week training on Title IV-E program policies and procedures as well as eligibility determination databases at the Baltimore City LDSS training facility. The actual case record review will commence July 27, 2009.

The agency is working on MDCHESSIE Title IV-E Enhancement to ensure accurate eligibility determination and payment as well as generate data reports in order to correctly claim the maximum amount federal dollars under Title IV-E. The enhancement project is currently working on defining and documenting functional requirements which includes changes in business rules and processes to ensure accurate IV-E caliming.

Note: The IV-E unit and MDCHESSIE Project have decided to change redet period from six to twelve months for two reasons, 1. there is no State regulations requiring IV-E redet to be completed every six-months, 2 the change to twelve months period is line with federal requirements for IV-E redet

Finding 6

Recurring monthly payments were not approved, resulting in overpayments. In addition, these overpayments at one LDSS were not adequately pursued.

Recommendation 6

We recommend DHR ensure that recurring payments to foster care and adoption families are approved by the applicable case managers at all of the LDSSs; and that adequate collection efforts are taken, including withholding future payments, when applicable, at all of the LDSSs for providers that have delinquent balances.

Department's Response

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

The Department concurs with the findings of OLA in the local departments they audited at the time of the audit. With regard to their recommendation “that recurring payments to foster care and adoption families are approved by the applicable case managers at all of the LDSSs;” our response differs as to whether the payment is a foster care payment or an adoption subsidy.

With the advent of foster care payments being made through MD CHESSIE as mentioned above, the Department has fully embraced the OLA recommendation to have case managers approve the payments each month. Part of the payment process in MD CHESSIE is called “Placement Validation” which requires that all caseworkers validate each child’s placement before payment for the preceding month can be made by the CHESSIE system. Without Placement Validation, there is no payment. With Placement Validation, MD CHESSIE continues with its established payment cycle with checks ultimately being issued by the Comptroller’s Office.

With regard to adoption subsidy payments, the process is different. Adoption subsidy payments are governed by annual agreements between the adopting family and the local department. While paid through MD CHESSIE, adoption subsidies do not require monthly validation as neither the placement nor the payment amount changes from month to month. Therefore, adoption subsidies run for the entire period covered by the subsidy agreement (one year) without additional validation.

The processing of payments through MD CHESSIE also squarely addresses the report’s second recommendation “that adequate collection efforts are taken, including withholding future payments, when applicable, at all of the LDSSs for providers that have delinquent balances.” MD CHESSIE provides a complete system to calculate and collect overpayments. The system generates an accounts receivable record when a child’s placement is adjusted to fewer days in care or the placement record is voided. It then automatically establishes a payment plan for all Active Providers. Future payments to Active Public Providers (local department homes with children in care) are offset 25%, and Private Providers’ (Residential Child Care Providers and Child Placement Agencies) payments are offset 100%, until the overpayment is paid in full. Providers may negotiate a different Payment Plan to adjust the offset percentage up or down. In addition, any missed payments are followed by collect letters at 30, 60 and 90 days and referral to the Central Collection Unit as necessary.

Only one Accounts Receivable record is maintained in CHESSIE for each Provider although the record may include multiple overpayments. If a new overpayment is incurred by an Active Provider with an existing debt, the total balance due is recalculated to combine the entire overpayment due and to pursue the collection through Offset. Likewise if the Provider becomes inactive, the collection automatically moves to Recoupment and will move back to Offset if children are placed with the Provider.

When the system generates an Accounts Receivable for an Inactive provider or an Active Provider become Inactive, a tickler is sent to the Fiscal unit of the provider county. The system requires staff to send a series of up to three demand letters. A history of notifications sent to the provider is stored in the system along with referral information to CCU. For those providers that do respond to the demand letters, the system records and tracks payment plan information and history of payment.

Finding 7

Differences between the foster care and subsidized adoption payment data maintained by two LDSSs and the statewide case management system data were not fully reconciled.

Recommendation 7

We recommend DHR ensure that the differences between foster care and subsidized adoption payment system data and MD CHESSIE are promptly investigated and resolved, and that supervisory personnel review and approve any resulting corrections and that such reviews be documented at all of the LDSSs.

Department's Response

The Department has made significant improvements in MD CHESSIE. Before implementing CHESSIE, the unreconciled differences were resolved to insignificant amounts and adequate controls are in place to ensure the propriety of amounts paid under CHESSIE. For these reasons, we consider this issue to be resolved.

Finding 8

Adoption eligibility reconsiderations were not adequately performed, as required, and payments were improperly made for individuals over 21 years of age.

Recommendation 8

We recommend that DHR ensure that, at all LDSSs, adoption eligibility reconsiderations are performed annually and documented, as required by State regulations, and that any overdue reconsiderations be performed immediately to determine whether the adoptive parents are still eligible to receive the subsidy; and payments to the adoptive parents of a child no longer eligible be discontinued immediately (such as through a system edit) and any resulting overpayments (including the payments made on behalf of the aforementioned 19 individuals) be recovered.

Department's Response

Three separate issues have been identified which will each be addressed in turn:
Adoption subsidies continued to be issued after 21st birthday of child.

SSA agrees that youth who are age 21 should not receive payment past their birth date. MDCHESIE automatically stop payments upon a child's 21st birthday, eliminating any possibility of overpayments due to children being ineligible due to age.
Yearly redeterminations were not completed on all cases

SSA agrees with the recommendation that eligibility redeterminations occur on a yearly basis. MDCHESIE provides a management report that addresses this deficit. FM705R reports the number of redeterminations due in the following month. This report is available to all local departments for use to manage their department's status and to ensure that all redeterminations are completed in a timely manner. As mentioned above, in February 2009, MD CHESSIE started

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

issuing the financial payments for adoption subsidies. The subsidy rate is put into the system by the user with an end date within 12 months. A new rate must be established each year for payments to continue. Additionally, one of our planned FY10 enhancements will connect the requirement for completing a yearly redetermination check list to the payment of subsidy, thereby preventing a payment where no yearly redetermination has been done.

Overpayments of adoption subsidies not sent for collection activity

In previous years we have been advised that we cannot recoup over payments of subsidies made in error. We have been unable to locate the Advice of Counsel letter to that effect and will request additional advice as to this issue and take any required action.

Finding 9

Medicaid eligibility determinations for long -term care recipients were not always proper and documented at one LDSS. In addition, an available online resource was not used to identify certain undisclosed assets, which can affect eligibility.

Recommendation 9

We recommend that DHR ensure, at all LDSSs, that Medicaid eligibility determinations are made in accordance with State regulations and are documented, and that available online real property records are used to identify any undisclosed critical financial information necessary in determining Medicaid eligibility.

Department's Response

DHR, Bureau of Policy and Training will coordinate with DHMH to ensure that additional statewide training for Medical Assistance/LTC staff will be provided on LTC eligibility rules and policies as well as the importance of documentation.

DHR, Bureau of Policy and Training will coordinate with DHMH to issue a joint Action Transmittal reminding Medical Assistance/LTC staff to use the available online real property records, as covered in Medical Assistance trainings and handouts, to identify any undisclosed critical financial information, when determining Medicaid eligibility.

Finding 10

Internal controls over bank account disbursements were inadequate.

Recommendation 10

We recommend that DHR determine if the LDSS bank accounts can be eliminated. If separate bank accounts continue to be maintained, we recommend that DHR ensure that proper internal controls are established over bank account disbursements at all LDSSs. We made detailed recommendations to the LDSSs which, if implemented, should provide the necessary controls. We also advised them how to accomplish the necessary separation of duties using existing personnel.

Department's Response

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

We agree with the recommendation. LDSS bank accounts are required in order to accomplish prompt payment at the local level, and are allowable for disbursements related to Emergency Assistance, Child Welfare Program Ancillary goods and services, and Travel Advance requests along with associated settlements. Administrative disbursements are not allowed for loans, prepaid expenses, or if the payment can be made using the FMIS transmittal payment process. In addition, payment of administrative expenditures to vendors with missing or incorrect taxpayer identification numbers can only be processed through FMIS. Assistance issuances for public assistance and foster care payments are governed by procedures found in the CARES Fiscal Manual and the MD CHESSIE fiscal procedures.

Beginning February 1, 2009 for services effective January 1, 2009, the MD CHESSIE financial module was implemented and the system began generating foster care room and board payments via an interface process to the Financial Management Information System with payment and check processing through the Comptroller's Office. For ancillary payments, the system was designed to interface to the local Automated Fiscal System (AFS) for payment and check issuances from local bank accounts.

With the implementation of the MD CHESSIE payment interface, approximately 90% of the total monthly foster care payments were generated by MD CHESSIE and processed via the FMIS interface, significantly reducing LDSS disbursements in local bank accounts. With the significant reduction in local disbursements, excess funds on hand in local bank accounts were reverted via local deposits to the Comptroller's bank account in June 2009. Only funds necessary for minimal local disbursements are now held in local bank accounts.

The Local Department Fiscal Administrative Manual contains the Department's policy and procedures on local disbursement and receipt processing, including sections specifically addressing internal controls. In addition, the manual contains a section on bank account reconciliation, requiring the review and signature by the Local Director or his/her written designee. The Comptroller's General Accounting Division Internal Control Manual for Use by State Agencies also contains extensive internal control procedures including requirements on the separation of duties. The Department's Office of the Inspector General monitors compliance with State and Departmental policy and procedures, and ensures that proper internal controls are maintained for Local Department Operations.

Finding 11
Internal controls over bank account collections were inadequate.

Recommendation 11

We recommend that DHR ensure that proper internal controls are established over bank account collections and deposits at all LDSSs. Specifically, we recommend that employees independent of the cash receipts process verify that recorded collections were deposited, and that such verifications be documented. We advised the aforementioned LDSSs how to accomplish the necessary separation of duties using existing personnel.

Department's Response

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

We agree with the recommendation. The Local Department Fiscal Administrative Manual contains the Department's policy and procedures on Cash Receipts, including a section specifically addressing internal controls. The Comptroller's General Accounting Division Internal Control Manual for Use by State Agencies also contains extensive internal control procedures including requirements on the separation of duties. The Department's Office of the Inspector General monitors compliance with State and Departmental policy and procedure, and ensures that proper internal controls are maintained for Local Department Operations.

Finding 12

Proper internal control was not established over purchasing and disbursement transactions.

Recommendation 12

We recommend that the available FMIS security features be fully used by establishing independent on-line approval requirements for all critical purchasing and disbursement transactions at all LDSSs.

Department's Response

We agree with the recommendation. Effective November 13, 2008, a change was implemented to the FMIS ADPICS application. Access to change a vendor on a payable document was removed statewide. This change requires a change order be created by the Procurement Department.

Of the 120 employees who are listed in the audit reports, there are 28 logonids counts that associate with Baltimore City DSS as follows: 18 are for central staff, one (1) is for a training logonid, and nine (9) for employees in Baltimore City Finance Office staff. None can transmit and none are vendor coordinators. Furthermore, the ASM Security Manual utilizes Critical disbursement documents that require independent ADPICS approval paths, which if not established, require the agency to implement alternate approval processes outside of ADPICS. DHR, in some instances, uses alternate approval processes outside of ADPICS.

There are 25 logonids that associates with Prince Georges County DSS as follows: 18 logonids are central staff, one (1) logonid is a training logonid and 6 logonids are Prince Georges Finance Office staff. Prince Georges has approval paths on their ADPICS payable docs. No employee who transmits has access to the ADPICS payable screens or can final-post the ADPICS accounts payable screens. Transmitters are not vendor coordinators. The remaining 67 logonids are for local departments other than Prince Georges. All logonids in 99 user class are restricted by a security org and by individual department.

Finding 13

Payments totaling \$1.3 million to one vendor for foster care transportation services were not subject to control agency approvals and lacked sufficient documentation to substantiate the propriety of amounts billed.

DHR – Local Department Operations
Response to Draft Audit Report
11/1/04 – 4/3/08

Recommendation 13

We recommend that DHR ensure that transportation services are competitively bid to ensure services are obtained at the lowest possible costs, formal written contracts are executed, and applicable State control agency approvals are obtained in accordance with State Procurement Regulations, management personnel approve the request forms authorizing the cab rides, and management personnel obtain and review the related supporting documentation for the amounts billed prior to making the related payments.

Department's Response

The Department concurs that foster care transportation services should be competitively bid, formal written contracts should be executed, and applicable State control agency approvals should be obtained. Local Department procedures will be updated to state the following.

When multiple purchases of similar items are expected to exceed \$5000 in aggregate cost during the fiscal year, the local department must solicit competitive bids and enter into written contracts as instructed in the DHR Administrative Procedures Manual.

Additionally, the Department concurs that management personnel should authorize cab rides, and invoiced services should be verified prior to payment. Furthermore, receipts verifying goods and services delivered to clients should be retained to document the expenditure of State funds. These control procedures will be subject to internal audit by the DHR Office of the Inspector General.

AUDIT TEAM

Stephen C. Pease, CPA

Audit Manager

Nichole M. Becker

Jonathan H. Finglass, CPA

Senior Auditors

Menachem M. Katz, CPA

A'knea K. Smith

Jennifer L. Thompson

Shalom N. Warburg

Staff Auditors