Audit Report

Maryland Department of Aging

July 2014

OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

July 1, 2014

Karl S. Aro
Executive Director

Thomas J. Barnickel III, CPA
Legislative Auditor

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Maryland Department of Aging (MDOA) for the period beginning July 1, 2010 and ending May 13, 2013. MDOA is responsible for identifying the needs of the State's elderly and ensuring that those needs are met through a comprehensive network of accessible services at the local level. MDOA has divided the State into 19 geographical regions and each region is served by a local Area Agency on Aging (AAA), which is either a local government agency or a nonprofit organization.

Our audit disclosed that MDOA lacked evidence to substantiate that certain activities of AAAs were properly monitored. MDOA's annual financial reviews of AAAs were not adequately documented to provide assurance that State grant funds were spent in accordance with grant awards, and there was a lack of documentation that participant eligibility for certain State care programs had been adequately verified. In addition, MDOA did not ensure that administrative expenses incurred by AAAs relating to Senior Care grant funds did not exceed established limits, and we found that, according to reports submitted by the AAAs, those limits were often exceeded. Furthermore, the basis for allocating certain grant funds to the AAAs was not documented. State grant expenditures totaled approximately $17.9 million during fiscal year 2013.

Our audit also disclosed that, during the audit period, MDOA did not ensure that AAAs performed initial eligibility determinations and annual redeterminations for participants of the Medicaid Waiver for Older Adults Program in a timely manner. Due to certain changes involving the Program, MDOA's continued responsibility for monitoring the related processes needs to be clarified. We also found that MDOA did not request federal fund reimbursements in a timely manner resulting in lost interest income, and could not support certain federal fund transactions that were recorded to offset a deficit of $3.7 million at June 30, 2013. Finally, certain information systems security and controls over a billing system were not sufficient.

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An executive summary of our findings can be found on page 5. MDOA'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 MDOA.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Table of Contents

* **Denotes items repeated in full or part from preceding audit report**

Executive Summary

Legislative Audit Report on the
Maryland Department of Aging (MDOA)
July 2014

- **MDOA lacked a comprehensive policy to ensure that financial reviews of local Area Agencies on Aging (AAAs) were sufficient to ensure that State grant funds were properly expended, and our test of reviews performed found that the results were poorly documented and lacked approval by supervisory personnel (Finding 1).**

  MDOA should develop a comprehensive policy that clearly defines the objectives and scope of its AAA financial reviews, and should require adequate documentation and supervisory approval for reviews performed.

- **Documentation of procedures performed and evidence examined by MDOA staff during AAA site visits to verify eligibility of participants in certain State care programs was not sufficient (Finding 2).**

  MDOA should ensure that steps taken during AAA site visits to verify program eligibility are sufficient and adequately documented, and that AAAs adequately verify and document participant eligibility in their records.

- **MDOA did not ensure that AAA administrative expenditures relating to certain grant funds did not exceed the limit allowed by MDOA policy. Furthermore, according to reports submitted by the AAAs, several AAAs exceeded that limit by a total of $552,000 for fiscal years 2012 and 2013 (Findings 3).**

  MDOA should ensure that AAAs expend all grant funds in accordance with MDOA policy.

- **MDOA did not ensure that AAAs performed initial eligibility determinations and annual redeterminations for participants of the Medicaid Waiver for Older Adults Program in a timely manner. Due to changes involving the Program, MDOA's continued responsibility for monitoring the related processes is unclear (Finding 4).**

  MDOA, in conjunction with Department of Health and Mental Hygiene (DHMH) management, should determine and formalize in a memorandum of understanding each party's responsibility related to the Medicaid waiver services program. If MDOA continues to be responsible for overseeing the

eligibility determinations and annual redeterminations performed by AAAs, MDOA should also establish appropriate monitoring procedures.

- **MDOA could not support the basis for allocating Senior Care program grants to AAAs. Such grants totaled approximately $7.2 million during fiscal year 2013 (Finding 5).**

  MDOA should ensure that the basis for allocating Senior Care program grants is adequately supported.

- **Delays in requesting reimbursement for federal fund expenditures resulted in lost interest income, and MDOA could not substantiate federal fund revenue accruals totaling approximately $3.7 million at June 30, 2013 (Finding 6).**

  MDOA should ensure that reimbursements of federal fund expenditures are requested on a timely basis and that all revenue accruals are valid and can be adequately supported.

- **Authentication, monitoring, and backup controls over the MDOA Medicaid billing system were not sufficient (Finding 7).**

  MDOA should implement appropriate security measures.

Background Information

Agency Responsibilities

The Maryland Department of Aging (MDOA) is responsible for identifying the needs of the State's elderly and ensuring that those needs are met through a comprehensive network of accessible services at the local level. MDOA has divided the State into 19 geographical regions. Each region is served by a local Area Agency on Aging (AAA), which is either a local government agency or a nonprofit organization. The AAAs operate in partnership with MDOA to deliver program services to the elderly that promote and enhance choice, independence, and dignity. Those services are typically delivered through State grant programs and the Medicaid Home and Community-Based Services Waiver for Older Adults Program (hereinafter referred to as the Medicaid Waiver for Older Adults Program).

According to the State's records, MDOA expenditures totaled approximately $49.4 million during fiscal year 2013, including approximately $17.9 million related to State grants. Additionally, expenditures for provider payments for the Medicaid Waiver for Older Adults Program, which MDOA administered in conjunction with the State's Department of Health and Mental Hygiene (DHMH), totaled approximately $111.5 million during fiscal year 2013. These expenditures were included in DHMH's budget, and DHMH was responsible for processing provider payments submitted by MDOA, and for recovering the related federal funds. Funding was generally shared evenly between federal funds and State general funds.

We were advised by MDOA and DHMH that, as of January 6, 2014, DHMH had assumed certain administrative functions previously performed by MDOA relating to the Medicaid Waiver for Older Adults Program. Furthermore, according to DHMH, effective that date the Program was merged with the Medicaid Living at Home Waiver Program, and is now administered by DHMH as the Home and Community-Based Options Waiver Program. Chapter 413, Laws of Maryland, 2014, effective October 1, 2014, essentially codifies the administrative action taken by DHMH in January 2014.

Federal Fund Disallowance

In April 2013, the federal Department of Health and Human Services' Office of the Inspector General (OIG) issued a report titled *Maryland Improperly Claimed Personal Care Services Provided Under Its Medicaid Home and Community-Based Services Waiver for Older Adults*. As previously mentioned, MDOA, in conjunction with DHMH, administered the Medicaid Waiver for Older Adults

Program. However, daily management activities were generally delegated to the State's 19 AAAs, which included eligibility assessment and ongoing case management.

The report stated that DHMH did not comply with federal and State requirements when it claimed certain Medicaid services under the Medicaid Waiver for Older Adults Program. For example, the report noted that personal care aides providing claimed services did not always have required certifications, such as for first aid, and that documentation on file did not always include a required authorized plan of care. The report also noted that DHMH did not ensure that MDOA had sufficient controls to monitor AAAs and to submit only allowable claims for reimbursement. Based on the results of its audit, the OIG estimated that DHMH claimed at least $10,864,195 in unallowable costs and recommended that DHMH refund that amount to the federal government. In addition, the report recommended that DHMH work with MDOA to improve its controls over claims processed to ensure compliance with federal and State requirements. In its January 2013 response to the report, DHMH generally concurred with the report's results and recommendations. In May 2013, DHMH advised the OIG that the $10,864,195 would be refunded to the federal government as an offset in its May 2013 federal fund drawdown request.

2012 Aging Exposition and Conference

In January 2013, the Department of Budget and Management (DBM) issued a report to MDOA regarding its review of fiscal controls over the *2012 Innovations in Aging Exposition & Conference* (Expo) held during May 2012 in Prince George's County. The report noted that the Expo was initiated by MDOA to benefit the community at large by offering lectures and workshops about the latest products, programs, and services available in senior and geriatric care. According to the report, MDOA was to partner with an organization which would provide expertise in organizing, administering, and managing most or all responsibilities associated with the Expo; however, this organization proved to have insufficient resources and experience necessary to fulfill the agreement with MDOA. Consequently MDOA management had to ultimately function as the senior partner and decision maker for most Expo tasks.

According to the report, the Expo had revenue from non-MDOA sources of approximately $113,000. Nevertheless, net expenses incurred by MDOA to support the Expo totaled $288,459, and included $149,998 required to help meet Expo costs when Expo revenue fell short of expectations (due to lower sponsor contributions, for example) and $40,846 in grant funds provided to local AAAs for certain registration, hotel, parking, and transportation costs incurred for AAA staff and seniors from the AAA jurisdictions.

The report stated that DBM identified numerous control issues and insufficient oversight of the project to develop and organize the Expo. In particular, DBM found that State procurement regulations and procurement best practices were not followed to ensure best value was obtained, and that certain funds paid toward Expo costs were not properly authorized. For example, the selection of supporting organizations and product/service vendors was not based on competitive bidding. The report noted, for example, that the Expo venue, which was paid $137,445 for event costs, was selected as a sole source vendor without pursuing competitive bids from other potential vendors. Furthermore, the report stated that MDOA did not maintain a complete accounting of Expo revenue and expenses, and consequently there was insufficient oversight over the income and expenses associated with the Expo. The report also contained certain other non-fiscal related findings related to planning and operation of the Expo.

DBM made numerous recommendations to MDOA primarily related to improving accountability and controls over future transactions and similar events. In its response to DBM, MDOA summarized the successes of the Expo, and noted that the suggestions and recommendations included in the report will inform and guide planning for future events.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of five findings contained in our preceding audit report dated March 29, 2011. We determined that MDOA satisfactorily addressed two of the findings. The remaining three findings are repeated in this report.

Findings and Recommendations

Monitoring of the Local Area Agencies on Aging

Background

The local Area Agencies on Aging (AAAs) operate in partnership with the Maryland Department of Aging (MDOA) to deliver program services to the elderly primarily through State grant programs and the Medicaid Home and Community-Based Services Waiver for Older Adults Program (hereinafter referred to as the Medicaid Waiver for Older Adults Program).

MDOA awards State grants to the AAAs to provide services through numerous programs, including the Senior Assisted Living Group Home Subsidy program (SALGHS) and the Senior Care program.[1] SALGHS offers a subsidy to eligible seniors to help offset the cost of assisted living services. The Senior Care program offers services such as personal care, adult day care, home-delivered meals, and medical transportation. According to MDOA's records, during fiscal year 2013, State grant expenditures totaled approximately $17.9 million; of these total expenditures, approximately $2.9 million was for the SALGHS program, approximately $7.2 million was for the Senior Care program, and the remaining $7.8 million was for smaller grant programs. According to MDOA's records, approximately 4,203 seniors received services through the Senior Care and SALGHS programs during fiscal year 2013.

Under the Medicaid Waiver for Older Adults Program, states can develop community-based alternatives to placing Medicaid-eligible individuals in nursing facilities. These Medicaid services include, but are not limited to, assisted living, personal care, home-delivered meals, and environmental modifications. As previously mentioned, expenditures for provider payments for this Program, which MDOA administered in conjunction with the State's Department of Health and Mental Hygiene (DHMH), totaled approximately $111.5 million during fiscal year 2013.

[1] Individuals generally must be aged 62 or older to qualify for the SALGHS program and aged 65 or older to qualify for the Senior Care program.

Finding 1
MDOA lacked a comprehensive policy to ensure that annual financial reviews of AAAs were subject to supervisory review and contained adequate documentation to evidence the appropriate use of State grant funds.

Analysis

Although MDOA conducted annual financial reviews of the AAAs to ensure that State grant funds awarded were spent in accordance with the related award documents and other applicable requirements, our test of the fiscal year 2013 reviews found that the results were poorly documented and not approved by supervisory personnel. Furthermore, MDOA lacked a comprehensive policy defining the scope and other critical elements of the reviews. Similar conditions were commented upon in our preceding audit report.

Our review of 10 financial reviews conducted by MDOA, relating to AAAs with Senior Care and SALGHS expenditures totaling approximately $6.6 million, disclosed six reviews that concluded in a letter to the applicable AAA that there were no findings. However, MDOA lacked sufficient documentation and supervisory approval to support this conclusion. For example, we noted only limited documentation of expenditures tested (copies of invoices selected for testing), and a lack of documentation of specific attributes tested and conclusions reached for each transaction. There were no detailed work papers describing test objectives, scope, and conclusions, or the extent to which AAA procedures were reviewed. The remaining four reviews disclosed the same lack of sufficient documentation, and there was no indication that results of these reviews were communicated in letters to the AAAs. In addition, none of the 10 reviews had evidence of supervisory review and approval.

The inadequate documentation was caused, at least in part, by the lack of a comprehensive financial review policy. According to MDOA's *AAA Monitoring and Assessment Policy*, MDOA is responsible for monitoring grantees to ensure that grant funds are requested and expended in accordance with grant requirements and for eligible purposes. While the policy requires annual performance and fiscal monitoring and assessment visits, it does not contain specific procedures on how to conduct a financial review to ensure that grant funds are properly requested and expended.

Recommendation 1
We recommend that MDOA

a. develop a comprehensive policy that clearly defines the objectives and scope of its AAA annual financial reviews (repeat),
b. require that sufficient grant expenditures and source documents are reviewed to provide assurance that grant funds were expended in accordance with grant requirements and for eligible purposes (repeat), and
c. adequately document and properly review and approve work performed and results determined in accordance with the comprehensive policy developed (repeat).

Finding 2
MDOA did not adequately document the procedures performed and evidence examined during AAA site visits to verify participant eligibility for certain State care programs.

Analysis
MDOA did not adequately document the procedures performed and the evidence examined during AAA site visits to verify participant eligibility for the Senior Care and SALGHS programs, and MDOA's *AAA Monitoring and Assessment Policy* gave limited guidance on such procedures and evidence. Furthermore, our review of selected AAA case files disclosed that documentation of participant eligibility was often lacking.

Our review of 11 annual site visits conducted by MDOA for the Senior Care program and 10 for the SALGHS program disclosed little or no evidence of the efforts taken by MDOA staff to ensure participant eligibility. For example, documentation of case files reviewed for the SALGHS program consisted primarily of a list of the participants examined, with no indication of how program eligibility (such as age, income, and medical condition) was verified. While the Senior Care program reviews we examined provided more information regarding what participant eligibility criteria were reviewed, there still was no documentation of the procedures performed and evidence examined to verify that the information provided was accurate and the selected participants were program eligible.

Our review of case files maintained by 2 AAAs for 20 participants (10 from each AAA) enrolled in the Senior Care program disclosed 15 without documentation, such as government issued identification, that the age requirement had been met. We also found a lack of income verification for 5 of 10 Senior Care participants at one of the two AAAs.

Recommendation 2

We recommend that MDOA

a. specify in its written monitoring and assessment policy the procedures to be conducted and the evidence to be examined during AAA site visits to verify participant eligibility in the Senior Care and SALGHS programs,

b. ensure that documentation of AAA site visits includes steps taken by MDOA staff to verify program eligibility for selected participants, and

c. ensure that AAAs adequately verify and document each participant's eligibility for the Senior Care and SALGHS programs.

Finding 3

MDOA did not ensure that Senior Care grant expenditures reported by AAAs for administrative costs complied with established policy.

Analysis

MDOA did not ensure that Senior Care grant expenditures reported by AAAs for administrative costs complied with established policy. Our test of grant expenditure reports submitted by seven AAAs for fiscal years 2012 and 2013, disclosed that expenditures for administrative costs incurred by four AAAs in fiscal year 2012 and three AAAs in fiscal year 2013 exceeded the maximum allowed by approximately $552,000 ($249,000 for fiscal year 2012 and $303,000 for fiscal year 2013). However, there was no documentation that MDOA had investigated the apparent over-expenditures for administrative costs.

MDOA policy provides that funding for Senior Care administrative costs incurred by an AAA may not exceed 10 percent of the AAA's Senior Care budget. However, the aforementioned reports showed that actual expenditures for administrative costs ranged between 12 percent and 29 percent of the AAA's approved budget. For example, one AAA with an approved budget of $1,380,431 for fiscal year 2013, reported administrative costs, such as disbursements for employee benefits and other operating expenses totaling $406,344, which exceeded the 10 percent limit ($138,043) by $268,301. The approved Senior Care budget for the aforementioned four AAAs in fiscal year 2012 totaled $2.7 million and for the three AAAs in fiscal year 2013 totaled $2.5 million.

Recommendation 3

We recommend that MDOA ensure that AAAs expend Senior Care program funds, including administrative costs, in accordance with its established policy. Specifically, we recommend that MDOA

a. monitor expenditure reports submitted by the AAAs for compliance with its established policy and investigate instances in which administrative costs exceed the established 10 percent limit, including those noted above; and

b. document the results of its investigations.

Finding 4

MDOA did not ensure the timeliness of Medicaid Waiver for Older Adults Program eligibility determinations and annual redeterminations performed by AAAs. MDOA's continued responsibility for monitoring the related processes needs to be clarified.

Analysis

During the audit period, MDOA did not ensure that initial eligibility determinations for Medicaid Waiver for Older Adults Program applicants and annual eligibility redeterminations for Program participants were being conducted by AAAs in a timely manner. However, it is unclear whether MDOA has retained responsibility for overseeing the eligibility determination and redetermination processes when certain Program administrative changes were initiated by DHMH in January 2014. These changes were codified in legislation enacted during the 2014 Session of the Maryland General Assembly.

Prior to January 2013, MDOA used an automated tracking system to monitor the status of pending waiver applications and past due annual redeterminations, and submitted reports to the applicable AAAs for review and follow-up. However, MDOA was not ensuring that AAAs had properly addressed the delays and provided adequate explanations. A delay in processing applications may result in seniors not receiving needed services. Timely redeterminations ensure that participants continue to be physically and financially eligible for services.

Our review of program applications and redeterminations disclosed frequent processing delays. For example, a review of 14 Program applications, made during the period July 2011 through August 2012, from one AAA disclosed 10 applications that took between 76 and 130 days to process even though DHMH policy requires eligibility determinations to be made within 45 days of receipt of the application.

In January 2013, MDOA began using a new system implemented by DHMH, in part, to help MDOA perform the aforementioned monitoring functions. Due to data reliability and reporting problems, MDOA was unable to use the system to determine whether AAAs were processing initial applications and redeterminations in a timely manner. MDOA did not establish an alternative monitoring method. We were advised by MDOA officials that in October 2013, they began submitting reports of pending and overdue applications to the AAAs from the new tracking system, but also advised us that they were still uncertain if all data reliability and reporting deficiencies had been corrected.

We were advised that, as of January 6, 2014, DHMH had assumed certain administrative functions of the Program that were formerly the responsibility of MDOA. However, these responsibilities have not been formalized and agreed to by both parties, for example, in a memorandum of understanding (MOU). Consequently, based on representations from the agencies, there appears to be a misunderstanding about which agency is responsible for monitoring the timeliness of initial eligibility determinations and redeterminations. According to DHMH, it has assumed responsibility for approving participants' plans of service, provider enrollment, and provider claims review and MDOA has retained responsibility for overseeing AAAs case management functions, including eligibility determinations and redeterminations. MDOA, however, advised us that it believes it no longer has responsibility for monitoring the determination and redetermination processes.

Chapter 413, Laws of Maryland, 2014, effective October 1, 2014, repeals DHMH's Medicaid Living at Home Waiver Program and alters the services to be included in the Medicaid Home and Community-Based Services Waiver (the Medicaid Waiver for Older Adults Program) to consolidate the two waivers. The requirement that DHMH and MDOA jointly administer the Medicaid Waiver for Older Adults Program is repealed. According to the fiscal and policy analysis for the legislation, the law essentially codifies the administrative action taken by DHMH in January 2014. The analysis also indicated that staff positions for the Medicaid Waiver for Older Adults Program (previously assigned to MDOA) have been transferred to DHMH and case management services will continue to be provided by staff at the AAAs.

Recommendation 4

We recommend that MDOA, in conjunction with DHMH management, determine and formalize in an MOU each party's responsibilities related to the Medicaid Home and Community-Based Services Waiver. If MDOA continues to be responsible for overseeing the eligibility determinations and annual redeterminations performed by AAAs, we also recommend that MDOA establish appropriate monitoring procedures to ensure that the determinations and redeterminations are conducted in a timely manner.

State Grants Allocation to AAAs

Finding 5
MDOA could not support the basis for allocating Senior Care program grants to AAAs.

Analysis
MDOA could not support the basis for allocating Senior Care program grants to AAAs. Although MDOA developed an allocation formula which used specific demographic data from each local jurisdiction, such as the number of low income individuals over age 60, to calculate the funding to be provided to each AAA, MDOA could not substantiate that it used this formula for allocating grant funds for fiscal year 2013. Furthermore, we were advised that because of certain concerns on the part of the AAAs as to how the funds were going to be allocated, the formula was not used for fiscal year 2014. Rather, the same amount allocated to each AAA for fiscal year 2013 was also allocated for fiscal year 2014 pending further study by MDOA of its allocation process.

According to MDOA policy, which is based on State law, MDOA is required to allocate funds in a manner that maximizes its impact on aging needs in Maryland. In our preceding audit report we recommended that MDOA establish an allocation formula that maximizes the impact on aging needs in Maryland, allocate Senior Care funds in accordance with the formula, and retain the related documentation.

Recommendation 5
We recommend that MDOA ensure that Senior Care grant funds are allocated in a manner that maximizes the impact on aging needs in Maryland by

a. allocating funds in accordance with an appropriate formula (repeat), and
b. retaining all supporting documentation (repeat).

Federal Funds

Finding 6
Requests for reimbursement of federal fund expenditures were delayed resulting in lost interest income to the State, and MDOA could not substantiate federal fund accrued revenues totaling $3.7 million.

Analysis
Requests for reimbursement of federal fund expenditures incurred for programs administered by MDOA (that is, non-Medicaid waiver services programs) were

delayed resulting in lost interest income to the State. Furthermore, federal fund accrued revenues totaling approximately $3.7 million could not be substantiated.

Although reimbursement requests were permitted on a monthly basis, our review of requests for reimbursement of federal grant expenditures totaling $11.9 million incurred during the period October 2012 to June 2013 disclosed that requests were made only twice during this period rather than monthly as the expenditures were incurred. In addition, as of December 2013, no requests had been submitted for expenditures that were unreimbursed as of June 30, 2013 totaling $6.3 million. The delay in requesting reimbursement of federal fund expenditures resulted in a loss of interest income to the State. Specifically, State funds, which otherwise would have been available for investment purposes, were used to finance federal expenditures for extended periods. We estimated that the aforementioned delays in recovering federal funds resulted in lost interest income to the State of approximately $39,000.

Furthermore, MDOA could not substantiate that federal fund accrued revenues would be available to fund expenditures of approximately $3.7 million that had been incurred as of June 30, 2013. For example, according to MDOA's records $2.7 million of this total relates to the Medicaid Waiver for Older Adults Program; however, MDOA has been unable to identify the specific federal fund expenditures that could be claimed for reimbursement. If federal funds are not received for these accrued revenues, then general funds may be needed to eliminate the resulting deficit.

Recommendation 6
We recommend that MDOA

a. ensure that requests for reimbursement of federal fund expenditures are made on a timely basis (as permitted by federal regulation);
b. in the future, ensure that all federal fund accrued revenues are properly supported; and
c. determine the proper disposition of the aforementioned $3.7 million.

Information Systems Security and Control

Background

MDOA maintains its own Medicaid billing system, which is used for its Medicaid Waiver for Older Adults Program. The Medicaid billing system is used to record, process, and transmit health care provider claims to DHMH's Medicaid Management Information System (MMIS II); MMIS II is used to process these claims for payment based on the eligibility of the providers and the recipients. As previously mentioned, as of January 6, 2014, DHMH had assumed certain administrative functions of the Program that were formerly the responsibility of

MDOA; however, MDOA advised us that it continues to be responsible for the Medicaid billing system.

Finding 7
Authentication, monitoring, and backup controls over the Medicaid billing system were not sufficient.

Analysis
Authentication, monitoring, and backup controls over the MDOA Medicaid billing system were not sufficient. Similar conditions regarding authentication and monitoring controls were commented upon in our preceding audit report.

- Account and password controls over the Medicaid billing system database did not comply with requirements of the Department of Information Technology's (DoIT) *Information Security Policy*. For example, password age, length, and complexity requirements were not enforced.

- MDOA's Medicaid Waiver billing database was not configured to generate reports of direct modifications to critical database tables. As a result, direct modifications to these critical tables would not be subject to management's review.

- The process used to back up critical data in the Medicaid billing system database had not been tested or verified as producing workable backups by the database vendor. In addition, MDOA had never tested its backup data to ensure that it properly restored the production database. As a result, MDOA lacked assurance, that in the event of the loss of the production Medicaid billing system database, critical database backups could be used to properly restore the database.

Recommendation 7
We recommend that MDOA

a. enforce account and password controls in accordance with the DoIT *Information Security Policy* requirements (repeat);
b. configure the billing database to generate reports of direct modifications to critical database tables and perform documented reviews of these reports (repeat); and
c. immediately test its database backup procedures to ensure that, in the event of the loss of the production database, critical database backups could be used to properly restore the database.

Audit Scope, Objectives, and Methodology

We have audited the Maryland Department of Aging (MDOA) for the period beginning July 1, 2010 and ending May 13, 2013. 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 State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine MDOA'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 findings included 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. The areas addressed by the audit included State grant programs, Medicaid Waiver for Older Adults Program, federal fund reimbursements, procurement and disbursements, payroll, and a critical information technology system.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MDOA's operations, and tests of transactions. We also performed various data extracts of pertinent information from the State's Financial Management Information System (such as revenue and expenditure data) and the State's Central Payroll Bureau (payroll data). The extracts are performed as part of ongoing internal processes established by the Office of Legislative Audits and were subject to various tests to determine data reliability. We determined that the data extracted from these various sources were sufficiently reliable for the purposes the data were used during this audit. Finally, we performed other auditing procedures that we considered necessary to achieve our objectives. Data provided in this report for background or informational purposes was not assessed.

Our audit did not include an evaluation of internal controls for federal financial assistance programs and an assessment of MDOA'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 MDOA.

MDOA'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 relating to conditions that we consider to be significant deficiencies in the design or operation of internal control that could adversely affect MDOA'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 MDOA that did not warrant inclusion in this report.

MDOA's response to our findings and recommendations 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 MDOA regarding the results of our review of its response.

APPENDIX

Martin J. O'Malley
Governor

Anthony G. Brown
Lt. Governor

MARYLAND
DEPARTMENT OF AGING

Gloria Lawlah
Secretary

June 20, 2014

Mr. Thomas J. Barnickel, III, CPA
Legislative Auditor
Office of Legislative Audits
201 West Preston Street
Baltimore, MD 21201

Dear Mr. Barnickel:

We have received the Legislative Auditor's Draft Audit Report pertaining to the audit of the Maryland Department of Aging for the period being July 1, 2010 and ending May 13, 2013. Attached is the Appendix to the report with MDOA responses to the findings and recommendations.

If you have further questions, please do not hesitate to contact Tiaa Rutherford, Chief of Staff, at 410-767-5193 or tiaa.rutherford@maryland.gov.

Sincerely,

Gloria Lawlah
Secretary

cc: Stephanie Hull, Deputy Secretary
Brian Robinson, Director Operations and Budget
Tiaa Rutherford, Chief of Staff
Jeffrey Myers, Assistant Attorney General

Finding 1: Comprehensive policy to ensure that financial reviews of local Area Agencies on Aging (AAAs) were sufficient to ensure that State grant funds were properly expended, documented and approved by supervisory personnel.

We agree with finding and recommendation.

a. Although MDoA does have a "comprehensive" policy that was provided to the auditors, MDoA is willing to address any deficiencies identified by OLA and respectfully requests clarification of what changes to policy are necessary (as opposed to the documentation concerns addressed in Recommendation 1(b)).
b. MDoA is undertaking a thorough review of the comprehensive policy to ensure that the annual reviews include the collection of a sufficient amount of source documentation, supervisory review and approval of work papers and assurances that State grant funds have been expended in accordance with grant requirements for eligible purposes.

c. As of April 2014, MDoA has hired an Internal Auditor and an Audit Trainee that will conduct the annual fiscal assessments for FY14. Staff is being trained and will utilize the updated policy and procedures to gather financial data from the AAAs. The completed assessments and supporting documentation will be reviewed by the Internal Auditor Lead to ensure that monitoring has complied with the comprehensive policy.

Finding 2: Documentation of procedures and evidence examined verify eligibility of participants in certain State care programs was not sufficient.

We agree with the finding and recommendation.

a. On July 1, 2014, a new APD will be issued to require all Area Agencies on Aging (AAA) to document age and income eligibility of participants for the Senior Care and SALGHS programs. The Aging Policy Directive (APD) will include a new Program Eligibility Verification Form and revised program monitoring tools.

b. On July 1, MDoA staff will use an updated checklist inclusive of the income eligibility documentation to monitor AAA files for Senior Care and SALGHS.

c. Monitoring practices, documentation, and review will ensure that AAAs adequately verify and document each participant's eligibility.

Finding 3: Senior Care grant expenditures reported by AAAs for administrative costs.

We agree with the finding and recommendation.

a. On July 30, 2014, a new MDOA Aging Program Directive (APD) and a revised Senior Care Budget Form FY 2015 will be issued to all Area Agencies on Aging (AAAs). The APD will: reiterate MDoA's existing policy of limiting total administrative costs to 10%; clarify that Case Management is a direct service and not an administrative cost; and clarify MDOA's procedures for reviewing financial reports, investigating instances of non-compliance, and taking corrective action, when needed.

b. The APD will include instructions for written follow-up, documenting findings of investigations and corrective action plans for administrative costs that exceed 10 percent.

Finding 4: Timely monitoring of Medicaid Waiver eligibility determinations redeterminations and changes in MDoA Waiver program responsibilities.

We agree with the finding and recommendation.

Under the new Community Options Home and Community-Based Service Waiver, the nineteen AAAs constitute a network of direct providers of case management services. Required timelines for specific steps in the application and eligibility determination and redetermination process will be defined in an Aging Policy Directive reviewed by DHMH and issued by MDoA to the AAAS. MDoA's responsibility for overseeing those requirements will be defined in a formalized MOU between MDoA and DHMH by July 1, 2015. The MOU will define each party's responsibilities and required monitoring procedures related to the timely completion of Medicaid Home and Community-Based Services Waiver eligibility determinations.

Finding 5: Basis for allocating Senior Care program grants to AAAs

We disagree with the finding and recommendation.[1]

a. Following the audit, documentation was found clarifying the Senior Care formula utilized for FY 2013 and has been provided to OLA. The Department utilized the Older American's Act Formula based on the recommendation from the Maryland Association of Area Agencies on Aging. The Formula was implemented for FY 2013 using Census Data.

b. The Department strives to ensure the most equitable funding formulas and will bring this before the AAAs if they wish to provide a new recommendation.

Finding 6: Delays in requesting reimbursement for federal fund expenditures substantiation of federal fund revenue accruals.

We agree with the finding and recommendation.

a. MDOA's policy requires the Area Agencies on Aging to submit Standard Financial Reporting forms and Request for Funds request forms **quarterly**. Within 45-60 days from the end of a quarter, MDoA

[1] **Auditor's Comment:** MDOA's response indicates disagreement with the finding and recommendation and states that following the audit, documentation was found and provided to OLA clarifying the Senior Care formula utilized for fiscal year 2013. In the report, we acknowledged that MDOA developed an allocation formula, but also stated that MDOA could not substantiate that it used this formula for allocating grant funds for fiscal year 2013. No additional documentation substantiating the fiscal year 2013 allocation was provided to us until after we issued our draft report to MDOA. Furthermore, this does not negate the fact that the formula was not used for fiscal year 2014, but instead the same amount allocated for fiscal year 2013 was allocated for fiscal year 2014, as stated in the report.

calculates the cumulative expenditures paid out to all AAAs for all federally funded programs and will submit a drawdown request to the State Treasurer's Office for federal reimbursement.

b. A new procedure is being implemented to ensure that federal fund accrued revenues are verified and properly supported during the next funding cycle.

c. MDoA will submit an Over-The-Target request during the FY 16 budget submission process pending approval from the Department of Budget and Management the MD Legislature.

Finding 7: Authentication, monitoring, and backup controls over the MDoA Medicaid billing system.

We agree with the finding and recommendation.

a. Although MDoA currently maintains responsibility for the Medicaid billing system, MDoA anticipates that responsibility for this system will be transferred to DHMH employees by July 2015. MDoA acknowledges that improvements are necessary but notes that the system is outdated and support modules are not available.

b. See response to (a) above.

c. MDoA IT staff recently test-restored the set of Medicaid Waiver Billing database files from a recent backup tape (containing full backup) then compared them with the set of database files restored from snapshot taken in same time window. The MD5 hash of both sets of database files matched, thus it is our belief that the current disk-to-disk-to-tape backup is a viable method of restoring those database files if the need arises. MDoA will investigate/research various server virtualization solutions and/or enterprise storage/backup solutions to further improve backup process for better RTO (Recovery Time Objective) and RPO (Recovery Point Objective).

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