Department of Job and Family Services

Medical Assistance ARRA Program Audit

Audit Period: November 1, 2009 to February 19, 2010

Contents

Executive Summary

Background

The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, include the following statement of purposes:

- To preserve and create jobs and promote economic recovery.

- To assist those most impacted by the recession.

- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.

- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.

- To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The State of Ohio has applied for over 90 ARRA programs with expected total grant awards to exceed $8 billion during the next two years. These applications have been initiated by 21 state agencies in the form of formula, competitive, and discretionary grants. The grant awards are distributed in the following four spending categories:

- Countercyclical Funds: The two largest components of the State's budget that is exposed during a recession, while state revenues decline, are health care and education. The State has been awarded two formula grants (Medicaid and State Fiscal Stabilization) to assist the State's budget. The State Fiscal Stabilization Fund is primarily for education.

- Appropriated Funds: These grants represent additional funding for existing programs such as transportation, labor, and justice programs which will assist in job creation.

- Safety Net Funds: These grants provide relief for lower-income families in the form of supplemental nutrition assistance, child care, and extension of unemployment benefits.

- Economic Growth Funds: These awards focus on new technologies such as alternative energy, health information technology, broadband, and research initiatives.

The Department of Job and Family Services (JFS) has approximately 21 ARRA awards. This audit focused on the Medical Assistance ARRA Program (Medicaid) which is a formula grant. As of December 31, 2009, the JFS has expended $1,559,376,927 of the $2,850,000,000 available for this program. The Medical Assistance Program is part of the safety net category and is not included in the ARRA Section 1512 reporting requirements. There are no reporting requirements for jobs created or retained for this program.

This report focused on the control design and operating effectiveness of the Medicaid program. For financial reporting, the federal oversight agency performs detailed testing and OIA's testing was limited to prompt pay requirements. The Auditor of State performs detailed testing on payments to providers and OIA limited its testing to state agencies that administer Medicaid. These state agencies represent approximately 15% of Medicaid payments.

Medicaid (CFDA 93.778) is awarded to designate State Medicaid Agencies by the U.S. Department of Health and Human Services, Centers for Medicare and Medicaid Services, to provide additional federal matching funds to support medically necessary services already provided by states to Medicaid eligible individuals.

Medicaid is a federally funded, state-administered program that reimburses providers such as doctors, dentists, optometrists, home health care aides and health-care facilities for providing medically necessary health care services to eligible low-income individuals. Medicaid also provides assistance with durable medical equipment such as wheelchairs and oxygen. The Federal Medical Assistance Percentage (FMAP) is the federal share of the state's Medicaid expenditures.

During the audit, OIA identified opportunities for JFS to strengthen internal controls and improve business operations. Summary and detailed observations have been provided. OIA would like to thank JFS staff and management for their cooperation and time in support of this audit.

This report is intended for the information and use of JFS management and the State Audit Committee.

Scope and Objectives

OIA staff was engaged to perform assurance work related to the Medical Assistance Program. This work was completed between November 1, 2009 and February 19, 2010. The scope of this audit included the following areas:

- Program planning
    - Program risk assessment; and
    - Internal control process documentation

- Program administration and monitoring
    - Communication of grant requirements; and
    - Program oversight and monitoring

- Reporting
    - Financial reporting (prompt pay only)

The following summarizes the objectives of the review along with a conclusion on the design of management's internal controls.

Objective	Conclusion[1]
Evaluate the adequacy of the JFS ARRA program risk assessment and internal control documentation based on guidance provided by state management.	**Improvement Needed See Observation 1**
Evaluate the adequacy of communication related to program requirements, state guidance, and federal compliance requirements to grant recipients.	**Well Controlled**
Evaluate the design and effectiveness of controls over the timely, accurate, and completeness of ARRA disbursements to other state agencies that administer Medicaid sub-programs on behalf of JFS.	**Well Controlled**
Evaluate the adequacy of the awarding process for ARRA funds to subrecipients.	**Well Controlled with Improvement Needed**
Evaluate the design and effectiveness of the controls over complete, accurate, timely reporting of financial information.	**Improvement Needed See Observation 2**

[1] Refer to Appendix A for classification of audit objective conclusions.

Summary of Observations and Recommendations

The Summary of Observations and Recommendations includes only those risks which were deemed high or moderate. Low risk observations and recommendations were discussed with individual agency management and are not part of this report. However, the low risk observations and recommendations were considered as part of the audit objective conclusions above.

No.	Observation	Recommendation	Risk[2]
1.	**Risk Assessment and Program Documentation Process –** JFS completed high level process diagrams describing the overall flows for ARRA funding. These process diagrams did not identify all key processes with key risks and mitigating internal controls as they relate to ARRA and were inadequate in documenting key risks and internal controls.	Management should continue to develop end-to-end process flows, to identify key program risks and assist in minimizing potential exposures to the department.	**Moderate**
2.	**Validation of Prompt Pay Reporting Information –** ARRA Medicaid funding allows for a higher federal reimbursement rate for transactions processed in an expedient manner. JFS is required to make disbursements to service providers in accordance with federal prompt payment laws and produce a report to document compliance. The change control procedures for creating customized reports related to prompt pay activity were informal. Important sections of the change control were not completed and/or documented such as end user testing and review and approval sign-offs.	Management performs reviews of completed prompt pay reports to help ensure all steps were completed and supported with appropriate and sufficient documentation.	**Moderate**

Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the observations and recommendations suggested above. However, these observations reflect our continuing desire to assist JFS in achieving improvements in internal controls, compliance, and operational efficiencies.

[2] Refer to Appendix A for classification of audit observations.

Detailed Observations and Recommendations

Observation 1 – Risk Assessment and Program Documentation Process

An effective and transparent risk management process includes program process documentation that identifies key risks, internal controls, decision points, and program outcomes as described in the OBM Guidance Memo #5 issued to state agencies on March 27, 2009.

JFS completed high level process diagrams describing the overall flows for ARRA funding. These process diagrams did not identify all key processes with key risks and mitigating internal controls as they relate to ARRA and were inadequate in documenting key risks and internal controls. JFS is in the process of redrafting process diagrams; however, the narratives and process flows have not been completed or approved by management.

Without complete detailed key processes, management may not have identified the highest program risks and effective controls to mitigate those risks to an acceptable level. Additionally, external transparency is increased and opportunities for process improvement efficiencies can result from the completion of documenting key processes.

Recommendation

Management should continue to develop end-to-end process flows, to identify key program risks and assist in minimizing potential exposures to the department. OIA has not found any specific issues with the following areas, however, when evaluating key risks and control, management should consider:

- management controls are operating to identify and prevent waste, fraud and abuse;
- matching requirements;
- drawdowns are complete, accurate, and include increased FMAP only for allowable expenditure types listed in ARRA Sections 5001(e) and 5001(f)(5);
- eligibility requirements of Medicaid recipients and providers are met and in compliance with Ohio Administrative Code (OAC) 5101:3-1-60, maximum allowable amounts and OAC 5101:3-10-03 Appendix A, maximum units are followed;
- coding of disbursement and reporting (including state agencies) are complete, accurate, and recorded in the proper period;
- requirements of Cash Management Improvement Act agreement and the two standards referenced by the ARRA prompt pay provisions are being consistently monitored and met; and
- monitoring activities and corrective action process to promptly resolve audit findings of subrecipients including those other state agencies that administer Medicaid sub-programs on behalf of JFS.

Additionally, in association with updating the Medicaid process diagrams, JFS should identify in the process where controls are in place to mitigate the above risks, and provide adequate activity narrative detail and/or reference standard review protocols/tools (i.e., monitoring checklists, reporting checklist, reconciliations, etc.) explaining the purpose for the protocol/tool.

Management Response

JFS will continue to work cooperatively with the OBM Office of Internal Audit to map out the processes and procedures not presently completed. In addition, JFS will work to annotate any areas of risk associated with the newly created process flows. JFS anticipates this project to be completed by the end of the fourth quarter of state fiscal year 2010.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Al Hammond	June 2010

Observation 2 – Validation of Prompt Pay Reporting Information

ARRA Medicaid funding allows for a higher federal reimbursement rate for transactions processed in an expedient manner. JFS is required to make disbursements to service providers in accordance with federal prompt payment laws and produce a report to document compliance. Best practices suggest that the prompt pay report be appropriately reviewed, tested, and approved prior to live production.

The change control procedures for creating customized reports related to prompt pay activity were informal. During the review of Customer Service Request (CSR), OHP-CSR-1086, it appears that sections of this CSR were not completed. These sections included the end-user-testing section and review, approval and final signoffs. The Office of Information Systems (OIS) and Ohio Health Plans (OHP) indicated that the report was reviewed by OHP and verbally approved to OIS. In September 2009, OHP sent an email to OIS and the Federal Reporting unit indicating the report was completed and in production. However, the Federal Reporting unit indicated that the production report does not break down the federal shares by reporting categories which are needed for federal reporting purposes.

Informal change control processes allowing insufficient documentations for end-user testing, and undocumented approval and signoffs by end users may allow programming errors or reporting format issues to occur and not be detected and corrected timely. This deficiency may affect other users (such as federal agencies and external auditors) who rely on the report.

Recommendation

Management should perform reviews of completed prompt pay reports to help ensure all steps were completed and supported with appropriate and sufficient documentation. These reviews could address the following areas:

- the Federal Reporting unit initiate a new CSR with OIS and involve OHP in the remediation process;

- all change procedures are completed and documented;

- a test plan be developed detailing the scope and focus of the testing and the results. The testing should be completed by the requestor of the CSR. Any unacceptable issues that arise should be documented and communicated to OIS; and

- final approval from the requestor should be documented before the reports are placed into production.

Management Response
At the present time Federal Reporting is working collaboratively with both OHP and IS to compile the necessary report requirements for appropriate prompt pay reporting on the quarterly CMS Federal Reports. The production of the new report will be completed in live time and will not necessitate a CSR for completion. Both OHP, IS and Federal Reporting has made this a priority project and anticipates the report to be completed, tested and in production by March 15, 2010. The initial CSR did not include the elements that are being utilized in the present report due to late guidance from CMS. As such CMS has provided guidance that the ARRA prompt pay reporting will be done as soon as necessary changes are made to each states computer payment system. No penalties will be issued around the prompt pay reporting.

Risk	Remediation Owner	Estimated Completion Date
Moderate	Al Hammond/Mary Fernald	June 2010

Appendix A – Classification of Audit Objective Conclusions and Observations

Classification of Audit Objective Conclusions

Conclusion	Description of Factors
Major Improvements Needed	Weaknesses are present that could potentially compromise achievement of its overall purpose. The impact of weaknesses on management of risks is widespread due to the number or nature of the weaknesses.
Improvements Needed	Weaknesses are present that compromise achievement of one or more control objectives but do not prevent the process from achieving its overall purpose. While important weaknesses exist, their impact is not widespread.
Well-Controlled with Improvements Needed	The processes have design or operating effectiveness deficiencies but do not compromise achievement of important control objectives.
Well-Controlled	The processes are appropriately designed and/or are operating effectively to manage risks. Control issues may exist, but are minor.

Classification of Audit Observations

Rating	Description of Factors	Reporting Level
High	Observation has broad (state or agency wide) impact and possible or existing material exposure requiring immediate agency attention and remediation.	Audit Committee, Senior Management, Department Management
Moderate	Observation has moderate impact to the agency. Exposure may be significant to unit within an agency, but not to the agency as a whole. Compensating controls may exist but are not operating as designed. Requires near-term agency attention.	Audit Committee, Senior Management, Department Management
Low	Observation poses relatively minor exposure to an agency under review. Represents a process improvement opportunity.	Department Management, Senior Management (Optional), Audit Committee (Not reported)

Appendix B – Audit Follow-up Procedures

OIA will periodically follow-up on management's plans to remediate high and moderate risk audit observations. Follow-up activities may generally be broken down into three categories:

Detailed   Detailed follow-up is usually more time-consuming and can include substantial audit customer involvement. Verifying and testing procedures implemented as well as substantiating records are examples. The more critical audit observations usually require detailed follow-up.

Limited   Limited follow-up typically involves more audit customer interaction. This may include actually verifying procedures or transactions and, in most cases, cannot be accomplished through memos or telephone conversations with the audit customer but requires onsite observation or testing.

Informal   This is the most basic form of follow-up and may be satisfied by review of the audit customer's procedures or an informal telephone conversation. Memo correspondence may also be used. This is usually applicable to the less critical observations.

Low risk audit observations will not result in an OIA audit follow-up, although these observations will be factored into the continuous risk assessment process for future OIA engagements.