Audit Report

Department of Health and Mental Hygiene
Mental Hygiene Administration

February 2002

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Maryland General Assembly
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February 19, 2002

Senator Nathaniel J. McFadden, Co-Chair, Joint Audit Committee
Delegate Samuel I. Rosenberg, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have audited the Mental Hygiene Administration of the Department of Health and Mental Hygiene for the period beginning February 1, 1999 and ending July 31, 2001.

Since our last audit, the Administration has made progress in recovering Federal funds related to mental health services, but some delays still existed. As of June 30, 2001, the Administration had not recovered about $6 million for mental health services claims incurred at least one year earlier. Due to age and other factors, full recovery of these claims may be at risk. Furthermore, the Administration had not yet concluded its efforts to account for all funds advanced over a four-year period for mental health services rendered by providers. In addition, funds advanced to providers primarily prior to July 1999 of $8.7 million had not yet been recovered. Lost interest attributable to these advances totals $500,000 annually.

Because of inadequate methodology for estimating its liabilities, the Administration underestimated the extent to which costs for mental health services provided prior to June 30, 2001 exceeded its available general fund appropriation. As of December 31, 2001, such excess costs totaled $29.4 million, which is $16.5 million higher than the Administration had estimated. It is likely that the deficit for 2001 will be larger primarily because providers still had three months to submit bills for that year.

Our audit also disclosed that the Administration did not take adequate action when its contractor (administrative service organization) did not pay provider claims timely. In addition, although the Administration hired a CPA firm to review certain procedures performed by the contractor, the firm was not required to review certain other key aspects of the contractor’s services. For example, although other reviews have detected significant payment errors, the firm was not required to review the contractor’s compliance with certain claim payment audit requirements.
In our preceding audit report dated October 20, 1999, we reported that the Administration’s accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. Based on the results of this audit, the Administration’s accountability and compliance level is no longer unsatisfactory.

Respectfully submitted,

Bruce A. Myers, CPA
Legislative Auditor
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Executive Summary

Legislative Audit Report on the Department of Health and Mental Hygiene
Mental Hygiene Administration
February 2002

- The Administration had not recovered claims related to mental health services totaling approximately $6 million provided prior to July 1, 2000 from the Federal government. Delays in requesting these claims may cause full recovery to be at risk, and result in the loss of interest income.

  The Administration should ensure that all Federal reimbursements are immediately requested and recovered.

- The Administration had not completed reconciliations to ensure that funds paid to various parties for mental health services were properly accounted for.

  The Administration should periodically complete reconciliations of funds paid for mental health services and recover any excess funds.

- The Administration’s general fund budget deficit related to mental health services for fiscal year 2001 totaled approximately $29.4 million, based on claim data as of December 2001. The Administration underestimated its deficit by $16.5 million. Since claims may be submitted up to nine months after services are provided, the liability for fiscal year 2001 could be larger. Furthermore, the Administration’s practice of paying certain claims for services provided more than nine months earlier violates State regulations.

  The Administration should accurately determine the fiscal year 2001 liabilities and report this information to the legislative budget committees, and should pay claims in accordance with State regulations.

- The Administration did not take adequate corrective action when claims were not paid or denied by the administrative service organization (ASO) on a timely basis. Specifically, the ASO’s payment records indicated that certain claims totaling approximately $50 million with service dates for calendar year 2000 were not paid in 30 days as required by contract.
The Administration should ensure that the ASO pays or denies provider claims in a timely manner in accordance with the contract.

- **Advance claim payments made to providers which primarily related to periods prior to July, 1999 totaled approximately $8.7 million and were still due to the Administration as of July 2001. Annual interest lost due to these funds not being recovered on a timely basis totaled approximately $500,000.**

  The Administration should immediately recover the advances or refer the accounts to the Department of Budget and Management’s Central Collection Unit.

- **The Administration’s contract with an independent CPA firm to perform certain procedures regarding the ASO did not include several key areas, such as the procedures used to help ensure the accuracy of claim payments. Other parties detected provider overpayments totaling approximately $1,260,000. The Administration paid for these audit/review procedures even though the ASO was required by contract to provide these services.**

  The Administration should ensure that the contract with the firm is comprehensive. Also, the Administration should recover all overpayments and determine if the fee paid for these audit services can be recovered.

- **The Administration did not initiate prompt follow-up action related to overpayments in excess of $280,000 disclosed by provider claim reviews. Claim reviews were not performed for inpatient services.**

  The Administration should recover all overpayments noted during the claim reviews. In addition, inpatient services should be included in future claim reviews.

- **The Administration did not ensure that core service agencies adequately monitored certain grants.**

  The Administration should ensure that the required levels of services are provided, audits are obtained and grant agreements are current.
Background Information

Agency Responsibilities

The Mental Hygiene Administration is responsible for developing comprehensive treatment and rehabilitation services for individuals with mental illness. The Administration’s mission is to promote the creation and management of a coordinated, comprehensive, accessible, culturally and age appropriate system of publicly funded services and to support individuals who have mental disorders. In addition, the Administration oversees the provision of publicly funded services that provide for the care and treatment of individuals who have mental disorders. Finally, the Administration is also responsible for supervising State mental health facilities and reviews and approves the local government plans for the treatment of the mentally ill.

Current Status of Findings From Preceding Audit Report

Our audit included a review to determine the current status of the 15 fiscal/compliance items contained in our preceding audit report dated October 20, 1999. We determined that the Administration satisfactorily addressed 9 of these items and the remaining 6 items are repeated in this report. In its response to our preceding audit report, the Administration generally agreed to implement the recommendations related to those findings.

In our preceding audit report, we reported that the Administration’s accountability and compliance level was unsatisfactory, in accordance with the rating system we established in conformity with State law. While our audit disclosed a number of significant deficiencies, the Administration has improved its fiscal and compliance operations and, accordingly, the Administration’s accountability and compliance level is no longer unsatisfactory.
Findings and Recommendations

Public Mental Health System

Background
The Administration established a new system for the delivery of specialty mental health service to eligible individuals in July 1997. The system pays providers for mental health services based on an established fee schedule (fee for service), instead of funding such services through grants.

The Administration contracted with an administrative service organization (ASO) in order to provide benefit management services (for example, ensure client eligibility, pay provider claims) for the new system. The Administration reimburses the ASO for claims paid to providers. Grants are still provided to core service agencies (local government related entities) by the Administration for mental health services that are not covered by the fee for service program.

According to the Administration’s records, approximately $810 million was paid for mental health services during fiscal years 2000 and 2001. Approximately $670 million was paid through the ASO for the fee for service program.

Finding #1
Federal funds totaling approximately $6 million for claims incurred prior to July 1, 2000 had not been requested as of June 30, 2001.

Analysis
Although the Administration had made significant progress in recovering Federal funds since our prior audit, delays were still noted. Specifically, claims related to mental health services totaling approximately $6 million provided prior to July 1, 2000 had not been recovered from the Federal government as of June 30, 2001.

Prompt recovery of Federal funds is significant since Federal regulations state that unless otherwise approved by Federal officials, reimbursement will be made only if the State files a claim within two years after the quarter in which the State made the expenditure. Although we were advised that the Administration had been granted an extension beyond the two-year period to submit certain claims, full recovery may be at risk. Additionally, delays in requesting Federal recoveries resulted in a loss of interest income of at least $175,000 annually.

Administration management advised us that delays in obtaining Federal reimbursement continued, in part, because of client eligibility issues. A similar condition was commented upon in our preceding audit report.
Recommendation #1
We again recommend that the Administration, in conjunction with the Department, ensure that all outstanding Federal reimbursements related to mental health services previously provided are requested and recovered.

Finding #2
The Administration had not ensured that funds paid for mental health services during the period July 1997 through July 2001 were properly accounted for.

Analysis
The Administration had not ensured that all funds advanced to the ASO and the core service agencies and the related amounts expended for mental health services were properly accounted for. Since the initiation of the new public mental health system (July 1997) through July 2001 the Administration had paid over $1 billion to the ASO and various core service agencies for mental health services. Although the Administration initiated separate reconciliations for all funds paid for mental health services to the ASO and the core service agencies, the reconciliations only addressed activities through September 2000 and the reconciliation related to the ASO was not completed as of November 30, 2001. Furthermore, the reconciliations did not adequately account for the funds advanced to the ASO and our review discovered certain errors and discrepancies in the completed core service agency reconciliation. For example, we noted the following:

- While the Administration had calculated the amount of claims paid by the ASO, an unexplained difference of approximately $13.9 million existed between invoices submitted by the ASO and the related monthly claim summaries that report the claim payments made by the ASO to the service providers. In this regard, the monthly claim summaries exceeded the invoices by this amount.

- The Administration did not substantiate significant components of the core service agency reconciliation, such as interest income totaling in excess of $2 million which is earned on advanced State funds used by the core service agencies for claim payments.

As a result, the Administration was unable to accurately determine the available cash balance for both the ASO and the core service agencies. A similar condition was commented upon in our preceding audit report.
In addition, the Report of the Chairmen of the Senate Budget and Taxation Committee and the House Appropriations Committee dated April 2001 requested the Administration to report a final accounting of mental health expenditures to the legislative committees by July 1, 2001. Since the Administration had not completed the reconciliation of mental health expenditures, the Administration had not submitted this required report to the legislative committees as requested.

**Recommendation #2**

We again recommend that the Administration perform periodic reconciliations to properly account for all funds advanced and expended for mental health services. We further recommend that the Administration complete the aforementioned reconciliations, resolve any discrepancies and recover any excess funds. Finally, we recommend that the Administration submit a report on the final accounting of mental health expenditures to the legislative committees as requested.

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### Finding #3

The Administration underestimated its fiscal year 2001 liabilities by $16.5 million.

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**Analysis**

Based on claim data through December 31, 2001, the Administration’s general fund budget deficit related to mental health services provided prior to June 30, 2001 totaled approximately $29.4 million. However, the Administration underestimated the unprovided for payable reported to the Comptroller of the Treasury’s General Accounting Division as of June 30, 2001 by $16.5 million. Specifically, the Administration reported a fiscal year 2001 unprovided for payable of only $12.9 million to the Division based on its estimate of costs for mental health services provided prior to June 30, 2001 but not yet reported.

Additionally, since providers can submit fee for service claims for payment nine months after services are provided, prior year claims can be received and paid until March 2002; therefore, the deficit and related unprovided for payable could be larger. Furthermore, we were advised that the Administration will pay certain claims past the nine-month limit, which is in violation of State regulations. The Administration received $8.1 million in its fiscal year 2002 budget appropriation to help fund its fiscal year 2001 deficit. The significant unprovided for payable was not fully disclosed due to the Administration’s continued lack of an adequate methodology for estimating expenditures dating back to the inception of the new mental health system in fiscal year 1998.
Recommendation #3
We recommend that the Administration determine the total fiscal year 2001 unprovided for payable and report the amount to the legislative budget committees. In addition, we recommend that the Administration develop a more accurate method to adequately estimate expenditures for claims incurred but not reported at fiscal year end and use this method to properly identify the total unprovided for payable at fiscal year end. Finally, we recommend that the Administration pay claims in accordance with State regulations (within nine months of the date services were provided).

Administrative Service Organization

Background
The Administration executed a contract with an administrative service organization (ASO) for benefit management services of the public mental health system including payment of mental health claims. The initial contract with the current ASO was from January 1, 1997 to June 30, 1998 with 3 one-year options awarded. The contracts and options expired June 30, 2001; however, the contract was extended with appropriate approvals to allow time to rebid the contract. The contract options and extension totaled approximately $36 million for the period July 1, 1998 through December 31, 2001.

In general, providers performed the services and submitted electronic or manual (paper) billings to the ASO. The ASO paid the providers on behalf of the Administration and requested reimbursement from the Administration. The ASO was then required to submit the detail information for Federally eligible claims to the Department to allow for Federal fund reimbursement (usually 50% of the total claim).

Finding #4
The Administration had not taken adequate corrective action regarding significant provider claims not paid by the ASO on a timely basis.

Analysis
The Administration did not take adequate corrective action when claims were not paid or denied by the ASO on a timely basis as required by the contract. Specifically, the ASO’s payment records indicated that manually processed claims totaling approximately $50 million with service dates for calendar year 2000 were not paid in 30 days, including approximately $4.4 million not paid in 60 days. A recent contract compliance audit completed by an independent CPA
firm also noted that 70 of 150 claims tested for the period July 2000 through March 2001 were not paid or denied within 30 days. However, follow-up actions taken by the Administration have not corrected this situation.

The contract provides for fiscal sanctions if the ASO fails to meet certain performance standards. Also, the contract requires the ASO to pay or deny claims within 30 days of the date of receipt of the claims. A similar situation was commented on in our preceding audit report.

**Recommendation #4**
We again recommend that the Administration implement corrective action (such as financial sanctions) to help ensure that provider claims are paid or denied within 30 days as required.

**Finding #5**
Advance claim payments made to providers totaling approximately $8.7 million remain outstanding, the majority of which occurred prior to July 1999. Annual interest lost due to the delay in recovering these advances totals approximately $500,000.

**Analysis**
As of July 2001, advance claim payments made to providers by the Administration that primarily related to periods prior to July 1999 totaled approximately $8.7 million (approximately $6 million of which were made to 8 providers) and were still due to the Administration. Furthermore, if the Administration does not collect these advances, its operating deficit would increase by any amount not collected. Annual interest lost due to these funds not being recovered on a timely basis totaled approximately $500,000.

The Administration advanced claim payments to certain providers for several reasons such as when providers reported that claims submitted to the ASO were not paid in a timely manner. As of June 1999, the outstanding advance claim payments totaled approximately $10 million. At that time, the Administration stated that it intended to obtain reimbursement primarily by offsetting these balances against subsequent claims processed. Although this process had not resulted in the timely return of the advance funds, the Administration had not forwarded the accounts to the Department of Budget and Management’s Central Collection Unit.
Recommendation #5
We recommend that the Administration immediately obtain reimbursement from the providers for all outstanding advances or forward the accounts to the Department of Budget and Management’s Central Collection Unit.

Finding #6
The Administration’s contract with an independent CPA firm for auditing services related to the ASO contract did not address several key areas.

Analysis
The Administration contracted with an independent CPA firm during fiscal year 2000 to perform certain procedures, including determining contract compliance by the ASO and a financial statement audit. However, the contract was not comprehensive and did not include specific due dates. Consequently, the procedures performed by the independent CPA firm and the resultant reports that were issued did not address several key areas.

For example, we noted that the contract did not require the independent CPA firm to verify that the ASO complied with certain important policies to ensure that all payments over $10,000 were proper and that the proper rates were paid. This is significant since a provider overpayment totaling $799,663 made by the ASO was subsequently discovered by a core service agency and recovered. In addition, our claim testing and discussions with Administration personnel disclosed overpayments to two providers totaling approximately $460,000 due to incorrect rates being used in the ASO’s automated claim payment system. Furthermore, the contract did not require the firm to ensure claims eligible for Federal reimbursement were properly recorded so that recoveries would be obtained.

The ASO did not provide independent compliance reviews and financial statement audits, as required by the contract. As a result, the Administration contracted with an independent CPA firm for these services. Based on our review of invoices, the Administration paid this firm in excess of $500,000 for these services.
Recommendation #6
We recommend that the Administration ensure that the contract with the independent CPA firm to review the ASO’s performance is comprehensive so that all material provisions are adequately reviewed and reported. We also recommend that the Administration recover all applicable overpayments and ensure that all deficiencies noted are corrected. Finally, we recommend that the Administration consult with the Office of the Attorney General to determine if funding could be recovered from the ASO for not providing the required review and audit.

Finding #7
The Administration did not recover overpayments totaling in excess of $280,000 disclosed during provider claim reviews and inpatient services were not subject to claim reviews.

Analysis
The Administration did not initiate prompt follow-up action related to the results of provider claim reviews. Specifically, our review disclosed unsupported provider services in excess of $280,000 that were reported to the Administration based on reviews conducted during the period May 1999 to January 2001. However, the Administration did not initiate sufficient actions to recover these overpayments. Additionally, although claim reviews were performed for certain types of services (outpatient), there were no claim reviews performed for inpatient services, which totaled in excess of $54 million for services provided in fiscal year 2001. This could be significant because another Department unit (Medical Care Programs Administration) had inpatient claims related to their operation reviewed, which resulted in significant recoveries.

The ASO contracted with an independent company to perform provider claim reviews, which included visiting select providers to obtain and review documentation to support services provided to the individuals and reimbursed by the Administration. The company reported the findings to the ASO and the Administration for corrective action including recovering potential overpayments.

Recommendation #7
We recommend that the Administration obtain reimbursement from providers for the aforementioned overpayments and ensure that adequate action is taken to address the results of all claim reviews performed. Also, we recommend that the Administration ensure that claim reviews are performed for inpatient services.
Core Service Agencies

Background
The Health-General Article of the Annotated Code of Maryland provides for the establishment of core service agencies in the local subdivisions. The law defines a core service agency as the designated county or multi-county authority that is responsible for planning, managing, and monitoring certain publicly funded mental health services within the community (such as residential rehabilitation homes, emergency psychiatric services).

As of July 31, 2001, 20 core service agencies had been established to serve 24 jurisdictions. In fiscal year 2001, the Administration awarded grants to core service agencies totaling approximately $36 million. The core service agencies subsequently awarded the majority of these funds to third parties who provided the mental health services. Each third party agreement includes service requirements specific to that provider. We performed on-site reviews of two core service agencies, which accounted for over 56% of the total fiscal year 2001 payments to core service agencies.

Finding #8
The Administration did not ensure that the core service agencies adequately monitored grant funds to ensure that the required level of services was received.

Analysis
The Administration did not ensure that the core service agencies adequately monitored grant funds awarded to service providers to ensure that the required level of services was received. Our limited review at two core service agencies disclosed nine grants totaling approximately $2.3 million for fiscal years 2000 and 2001 whereby the core service agencies did not verify that the required services were performed or lacked documentation that the verification was performed. For example, one grant totaling approximately $594,000 required the grantee to provide a certain number of meals to patients, and also to provide staff supervision of patients 24 hours per day. However, the core service agency did not verify that these required services were performed. Furthermore, another grant totaling $299,000 required that the provider provide in-home services to approximately 50 families but the core service agency lacked documentation that these services were performed. Additionally, the Administration contracted with an independent CPA firm to review how grant performance measure results were verified. The firm noted a lack of adequate oversight by the Administration regarding the core service agencies’ verification of grant performance measure results.
As a result of inadequate verification of grant performance measure results, the Administration could not ensure that services were adequately provided in the most cost effective manner. A similar condition was commented upon in our two preceding audit reports.

Recommendation #8
We again recommend that the Administration require the core service agencies to independently verify the actual services performed by the providers, document the verification procedures performed and compare the actual results to the grant requirements so that the Administration can evaluate the effectiveness of services provided. We also again recommend that the Administration ensure that core service agencies take appropriate action, as needed, based on the evaluation results.

Finding #9
Provider grant agreements were not executed on a timely basis.

Analysis
Our review of the two core service agencies disclosed that certain fiscal year 2002 provider grant agreements were not executed prior to the period covered by the agreement and prior to services being provided. For example, our test noted 10 fiscal year 2002 grant agreements totaling approximately $448,000 that were not executed on a timely basis at one core service agency, including six agreements that were still not executed as of October 31, 2001. In addition, the Administration contracted with an independent CPA firm to review the Administration’s monitoring process for the core service agencies. The independent CPA firm noted that 25 of 33 fiscal year 2001 contracts tested were not executed on a timely basis. Similar conditions were commented upon in our three preceding audit reports.

Core service agencies entered into written agreements with providers to outline the rights and responsibilities of the agencies and the providers.

Recommendation #9
We again recommend that the Administration ensure that all provider grant agreements are executed prior to the inception of their covered period.
Finding #10
Provider grant audits were not always obtained as required.

Analysis
Our review of grants administered by two core service agencies disclosed that provider grant audits were not always obtained as required. For example, one core service agency did not obtain provider audits for four fiscal year 2000 grants totaling $379,930. In this regard, the core service agencies memorandums of understanding require annual audits of vendors that provide services for cost-based reimbursement contracts in excess of $50,000. The core service agency may contract separately for the audits or require the providers to submit audits. A similar condition was commented upon in our three preceding audit reports.

Recommendation #10
We again recommend that the Administration ensure that all core service agencies obtain on a timely basis an audit of every grant provider as required. We further again recommend that the Administration ensure that the agencies address all findings and recommendations made in the related audit reports.

Cash Receipts

Finding #11
Cash receipts were not sufficiently controlled by the Administration.

Analysis
Controls were inadequate over checks received at the Administration related to overpayment of mental health services. Specifically, checks were received by several employees but were not recorded until the funds were forwarded for deposit. In addition, independent verifications were not performed to ensure that all collections recorded were submitted for deposit with the Department’s central cashier. Consequently, there is a lack of assurance that all checks received were deposited. During fiscal year 2001, Administration recorded collections totaled approximately $321,000.

Recommendation #11
We recommend that all checks be recorded immediately upon receipt. We further recommend that an employee independent of the cash receipts function verify that all recorded collections were submitted for deposit with the Department’s central cashier and properly document this comparison.
Audit Scope, Objectives and Methodology

We have audited the Mental Hygiene Administration of the Department of Health and Mental Hygiene for the period beginning February 1, 1999 and ending July 31, 2001. The audit was conducted in accordance with generally accepted government auditing standards.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, the objectives of this audit were to examine the Administration’s financial transactions, records and internal control, and to evaluate its compliance with applicable State laws, rules and regulations. We also determined the current 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. Our audit procedures included inquiries of appropriate personnel, inspection of documents and records, and observation of the Administration’s operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our objectives.

Our audit did not include certain support services provided by the Department’s Office of the Secretary and related units to the other units of the Department. These support services (such as payroll, purchasing, maintenance of accounting records and related fiscal functions) are within the scope of our audit of the Office of the Secretary. In addition, we did not audit the Administration’s Federal financial assistance programs for compliance with Federal laws and regulations because the State of Maryland engages an independent accounting firm to annually audit such programs administered by State agencies.

The Administration’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 the Administration’s ability to maintain reliable financial records, operate effectively and efficiently and comply with applicable laws, rules and regulations. Our report also includes findings regarding significant instances of noncompliance with applicable laws, rules or regulations.

The Department’s response, on behalf of the Administration, 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 the Administration regarding the results of our review of its response.
February 19, 2002

Mr. Bruce Myers, CPA
Legislative Auditor
Office of Legislative Audits
Room 1202
301 West Preston Street
Baltimore MD 21201

Dear Mr. Myers:

This is in response to your February 1, 2002 letter that included the draft audit report for the Department of Health and Mental Hygiene-Mental Hygiene Administration for the period beginning February 1, 1999 and ending July 31, 2001. Attached you will find the Department's response that addresses each recommendation. I will work with the Executive Director of the Mental Hygiene Administration and the Deputy Secretary to promptly address all audit exceptions. In addition, our Division of Internal Audits will follow-up on the recommendations to ensure compliance.

If you have any questions or require additional information, please do not hesitate to contact me or Larry Triplett of my staff at 410-767-5228.

Sincerely,

Georges C. Benjamin, M.D.
Secretary

Attachment

cc: Mr. Oscar Morgan
Ms. Arlene H. Stephenson
Mr. Lawrence Triplett
Department of Health and Mental Hygiene  
Mental Hygiene Administration  
Audit Report  
February 2002

Finding #1  
Federal funds totaling approximately $6 million for claims incurred prior to July 1, 2000 had not been requested as of June 30, 2001.

Recommendation #1  
We again recommend that the Administration, in conjunction with the Department, ensure that all outstanding Federal reimbursements related to mental health services previously provided are requested and recovered.

Agency Response:  
The Administration agrees that it is important to maximize federal revenue for Medicaid eligible claims and continues to work to ensure that all outstanding federal reimbursement is recovered. With regard to the $6 million outstanding, approximately 50% of that amount is due to a receivable for the Baltimore Mental Health System’s Capitation project. The Administration has been working with the Health Care Financing Administration, now known as the Center for Medicare and Medicaid Services, in an attempt to obtain Medicaid eligibility for these services. This was granted in late December 2001 and the billing deadline was extended to allow us to file those claims. Billing will begin next week. The remaining claims represent a variety of issues for which time is still available to process.

Recovery of federal funds has greatly improved since the inception of the Public Mental Health System. Based on the most recent statistics provided by the ASO for the period October 1 to December 31, 2001, $77 million or 94.6% of eligible claims were submitted within 7 days and $81 million or 98.8% were submitted for federal reimbursement within 21 days. Of those claims submitted approximately 96.92% of the claims (93.88% of the money) process upon initial submission. The remaining claims are researched and submitted for reimbursement.

Finding #2  
The Administration has still not ensured that funds paid for mental health services during the period July 1997 through July 2001 were properly accounted for.

Recommendation #2  
We again recommend that the Administration perform periodic reconciliations of the funds advanced and expended for mental health services. We further recommend that the Administration complete the aforementioned reconciliations, resolve any discrepancies and recover any excess funds. Finally, we recommend
that the Administration submit a report on final accounting of mental health expenditures to the legislative committees as requested.

Agency Response:
The Administration agrees that funds advanced and paid for mental health services should be properly accounted for by reconciling funds advanced and expended for mental health services. For receipts and expenditures in prior periods, we will continue to work with MHP to resolve those differences and recover excess funds should they exist. To eliminate a reoccurrence, the Administration has instituted new procedures requiring that cash payments and claims are reconciled as part of the ASO month end reporting process starting with January 2002. With regard to submitting reports to the General Assembly, the Administration reports on the Public Mental Health System quarterly. The MHA will include a copy of the completed financial audit for the period of July 1, 1997 to September 30, 2000 with its next submission of this quarterly report.

MHA has been able to reconcile the cash paid to the Core Service Agencies (CSAs) and to MHP by both MHA and the CSAs with provider billings. From July 1997 through July 2000, the Mental Hygiene Administration allocated and disbursed Medicaid and State fee-for-service funds to the Core Service Agencies, which then paid MHP for approved services to members of the PMHS who resided in the CSA. MHP continued billing CSAs for FY1998 and FY1999 services: however, during that time, some CSAs depleted their cash for these payments. As a result, MHA paid MHP for services on behalf of the CSAs. The complexity of such transactions are the exact reason that MHA changed its system to one in which it pays the ASO for all fee-for-service claims and is the reason that the reconciliation has been difficult and time consuming. The independent auditors have completed a financial accounting, which has yielded an unqualified finding for the period ended September 30, 2000. Finally the current accounting system will mitigate those circumstances that made the initial payments in the system so difficult to track.

Finding #3
The Administration underestimated its fiscal year 2001 liabilities by $16.5 million.

Recommendation #3
We recommend that the Administration determine the total fiscal year 2001 unprovided for payable and report the amount to the legislative budget committees. In addition, we recommend that the Administration develop a more accurate method to adequately estimate expenditures for claims incurred but not reported at fiscal year end and to properly identify the total unprovided for payable at fiscal year end. And finally, we recommend that the Administration pay claims in accordance with State regulations (within nine months of the date of service).
Agency Response:
The Administration will report the unprovided for payables for FY2001 to the General Assembly when the final amount is known in March 2002. This balance will be reported as a total unprovided for, which will include any adjustments due to prior year operations.

With regard to the recommendation that the Administration adequately estimate expenditures, the Administration continues to monitor expenditures using a number of different factors to assist in trend analysis so that accuracy will be improved.

And finally, the Administration no longer authorizes payment of claims presented after nine months with the exception of those historic providers, whose existence may be jeopardized without these exceptions or in special situations such as the retroactive assignment of a Medical Assistance provider number.

<table>
<thead>
<tr>
<th>Finding #4</th>
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<tbody>
<tr>
<td>The Administration had not taken adequate corrective action regarding significant provider claims not paid by the ASO on a timely basis</td>
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**Recommendation**
We again recommend that the Administration implement corrective action (such as financial sanctions) to ensure that provider claims are paid or denied within 30 days as required.

Agency Response:
The Administration agrees that it is important for the ASO to pay or deny claims within 30 days and will continue to monitor the ASO’s performance and consider sanctions for excessive delays.

As the auditor noted, the Administration has engaged an independent accountant to audit to determine contract compliance. The independent auditor was asked to determine, based on sampling, whether the ASO was paying or denying claims within 30 days as required by contract. Because the independent auditor was engaged after the start of the fiscal year, the first nine months would be retrospectively tested together as one period and each quarter would be tested separately going forward. (The latest statistics from MHP for FY2001 indicate that nearly 88% of claims are now processed electronically and the remaining 12% are almost all inpatient paper claims or claims with third party insurance).

The Administration anticipated that the first period tested would provide poor performance numbers but recognized that there are reasons that account for the majority of the delays. They include claims that are pended for manual review by Maryland Health Partners, claims that are re-adjudicated by MHP without requiring resubmission by the provider (reprocessed after correction of conditions causing denial with the original submission date), and claims that are processed as a special project (providers with continuing billing problems).
For the quarter ended June 30, 2001, the number of claims paid beyond 30 days has decreased considerably (from 47% to 14%) for several reasons. First, the Administration no longer approves the re-adjudication of old claims (except in the cases of a few historical providers) and second, the ASO no longer pends claims for correction; those claims are denied. In the quarter ended June 30, 7 of 50 claims were paid or denied after 30 days (1 outpatient, 6 inpatient). The average number of days for the payment was 8 for outpatient and 21 for inpatient.

**Finding #5**
Advance claim payments to providers totaling approximately $8.7 million remain outstanding, the majority of which relates to periods prior to July 1999. Annual interest lost due to the delay in recovering these advances totals approximately $500,000.

**Recommendation #5**
We recommend that the Administration immediately obtain reimbursement from the providers for all outstanding advances or forward the accounts to the Department of Budget and Management's Central Collection Unit.

Agency Response:
The Administration agrees that it is important to recover all outstanding advances and is working to recover outstanding advances from providers. Immediate recovery of advances and prepayments may adversely affect the financial health of historical providers particularly in Baltimore City. The ASO has made significant progress in collecting outstanding balances and expects to have the original advances resolved (either repaid or submitted to CCU for repayment) by July 31, 2002.

Advances and claims prepayments were given to providers transitioning from a grants based system to a fee for service system. MHA made most of these prospective payments to historic providers who were experiencing difficulty as they transitioned to the fee-for-service system or as such providers implemented internal changes such as working to implement new, more efficient billing systems. The overwhelming majority of funds advanced have been recovered. The majority of the remaining balance is due to a handful of historic providers with whom the MHA and MHP and the CSAs have been working since the system began in FY 1998.

**Finding #6**
The Administration’s contract with an independent auditor for auditing services related to the ASO contract did not address several key areas.

**Recommendation #6**
We recommend that the Administration ensure that the contract with the independent auditor for an ASO contract compliance review is comprehensive so
that all material provisions are adequately reviewed and reported. In addition, we recommend that the Administration recover all applicable overpayments and ensure that all deficiencies noted are corrected. Finally, we recommend that the Administration consult with the Office of the Attorney General to determine if funding could be recovered from the ASO for not providing the required review and audit.

Agency Response:
A new engagement letter was recently signed incorporating the additional areas for review suggested by the auditor, including a special review of claims that appear to be overpayments. The Administration will be working with the ASO to correct the deficiencies and overpayments will be recovered. We have forwarded a copy of the auditor's recommendation to the Office of the Attorney General and requested an opinion.

The Administration contracted with the independent auditor in response to the Legislative Auditor's recommendations in the last Mental Hygiene Administration audit. With regard to the recovery of funds from the ASO for failure to provide the required review and audit, the ASO contract requires that a financial audit be performed and an audit of the parent company is performed each year (the ASO is a wholly owned subsidiary with no independent financial statements but rather trial balance accounts that are rolled into the parent corporation's statements). The Legislative auditor determined that the level of review under the corporate audit was not satisfactory even with additional agreed upon procedures performed by the parent’s audit firm. The Administration then contracted with an independent auditor to provide the level of review deemed necessary. Funds paid to the independent auditor included the financial audit, a SAS70 audit, a compliance review, risk management consulting services, and policy review. Funds cited by the auditor represent the costs associated with two years of work. In the first year, a review of a SAS70 Type I review (computer security and procedure controls) and a trial balance review was performed that cost approximately $130,000. A summary of the costs ($387,247) of the most recent engagement is as follows:

<table>
<thead>
<tr>
<th>Service</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Audit</td>
<td>37,644</td>
</tr>
<tr>
<td>Compliance review</td>
<td>38,314</td>
</tr>
<tr>
<td>SAS70 audit</td>
<td>129,089</td>
</tr>
<tr>
<td>Monitoring and policy development</td>
<td>182,200</td>
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In lieu of the audit and compliance review the ASO performed other duties not outlined in their original contract (e.g. MHP established and maintains a secured web site available to MPHS' providers; MHP has also performed the programming and continues the ongoing coordination needed to allow MCOs to provide information to primary care practitioners about mental health services authorized for their patients).
Finding #7
The Administration did not recover overpayments totaling in excess of $280,000 disclosed in claims reviews and inpatient services were not subject to claims reviews.

Recommendation #7
We recommend that the Administration obtain reimbursement from providers for the aforementioned overpayments and ensure that adequate action is taken to address the results of all claim reviews performed. Also, we recommend that the Administration ensure that claim reviews are performed for inpatient services.

Agency Response:
The Mental Hygiene Administration has been working to establish the appropriate policies and procedures to allow for the retraction of funds which are not properly documented while assuring that providers have an appropriate due process opportunity to produce the documentation for the services that have been identified. Payment for any services for which documentation has not been identified will be retracted.

With regard to inpatient claims, the Administration agrees with the recommendation and has been working with Medical Assistance to 'piggyback' on existing contracts to perform claims reviews. MHA and MA have a draft MOU establishing procedures for recoveries due to third party liability and recoveries due to inpatient claims reviews.

When the first audits were completed, the agent performed the review and prepared a report, which went to Maryland Health Partners (MHP). MHP then reviewed the results and passed them to the Mental Hygiene Administration (MHA). At that time, MHA did not have staff available and identified to process the reports and began the process of establishing a compliance unit. An individual was identified to perform the function and began the process. The initial reports from the audit agent proved difficult to review and process. The $280,000 referenced in the discussion note was based on these initial audits, and the Administration is working through the extensive documentation that has been submitted to determine the services for which funds should be retracted.

To more fully deal with compliance issues, the Administration has established a broad based compliance committee so that the unit may focus on all compliance issues, which go beyond the audits in question in the current recommendation. As a result of discussions of what constituted appropriate documentation for a medical service, the compliance committee has established several policies and guidelines, which indicate the elements necessary to document different types of medical and rehabilitative services. This makes the process of determining those services for which funds should be retracted much clearer to all concerned.

MHA has worked with MHP, the audit agent, and the compliance committee to refine the process even further, and going forward, a procedure has been established which will allow the retraction of funds for undocumented services within six weeks of the audit being completed. Specifically, MHP will continue to draw an initial sample of claims.
and provide them to the audit agent on a spreadsheet. The agent will then select claims from this spreadsheet and copy them onto a new claim specific spreadsheet which will contain blanks to allow the agent to make notes and to indicate services for which the documentation had been located, and services for which no documentation had been located. This sheet will be shared with the provider and sent to MHA. At the time that the provider receives the spreadsheet, they will be told that they have 30 days to provide documentation to MHA for any services for which documentation had not been found. Once MHA receives the additional information from the provider, the spreadsheet will be appropriately annotated to indicate which claims have been documented appropriate and the claims for which funds are to be retracted. This spreadsheet will be sent to the ASO, which will use it to retract funds for undocumented services.

| Finding #8 |
|  The Administration did not ensure that core service agencies adequately monitored grant funds to ensure that the required level of service was received. |

**Recommendation #8**

We again recommend that the Administration require the core service agencies to independently verify the actual services performed by the providers, document the procedures performed, and compare the actual results to the grant requirements so that the Administration can evaluate the effectiveness of services provided. We again recommend that the Administration ensure that core service agencies take appropriate action, as needed, based on the evaluation results.

**Agency Response:**

The Administration agrees with the recommendation that the grants need to be monitored and in July 2001 initiated procedures to document Core Service Agencies (CSAs) performance reviews using staff members in the MHA Office of CSA and Public Relations. In addition, the Administration also performs retrospective reviews to evaluate the success of the grant, determine the need for the following year and establish or adjust the funding level.

We have also engaged an independent accounting firm to assist with risk management, to assist in selecting a sample for review (in FY2002 there are 335 CSA grants and 210 vendor contracts), and to assist with the actual review to ensure that there is an independent assessment of the findings. The FY2002 memorandum of understanding requires the CSAs to review contract performance measures to ensure that providers meet contract requirements and take necessary action if the contract requirements are not met. Funds have been returned to the administration in the amounts of $1,935,519 in FY2000 and $2,243,510 in FY2001. These amounts are exclusive of ‘reprogrammed’ funds (unspent funds redirected for another purpose). In the future, not only will the Administration recover funds based on these reviews, but will clearly document the specific reason for the recovery.
Finding #9
Provider grant agreements were not executed on a timely basis.

Recommendation #9
We again recommend that the Administration ensure that all provider grant agreements are executed prior to the inception of their covered period.

Agency Response:
The Administration agrees that Core Service Agency (CSA) contracts with providers of service should be signed prior to the begin date and the CSA’s memorandum of understanding was amended to include that requirement. FY2002 is the first contractual cycle in which the Administration has had an opportunity to include these provisions since the last audit. In FY2001 the number of CSA vendor contracts that started after the begin date was nearly 65%. For FY2002, the percentage that are late has been reduced to approximately 15%. It is essential to note that a number of the counties have fiscal policies that require approval of budgeting and procurement transactions by the County Council and/or other supervisory board, which hinder if not prevent the CSA from signing provider contracts in a timely manner. Several of these schedule meetings quarterly, which does not readily lend itself to the State’s contracting cycle. The Administration will continue to work to find alternatives (e.g. in FY2002 we have renewal contracts, which provide the option of automatic renewal).

Finding #10
Provider grant audits were not always obtained as required.

Recommendation #10
We again recommend that the Administration ensure that all core service agencies obtain on a timely basis an audit of every grant provider as required. We further again recommend that the Administration ensure that the agencies address all findings and recommendations made in the related audit reports.

Agency Response:
The Administration agrees that the core service agencies should obtain a copy of provider audits and the Core Service Agency (CSA) memorandum of understanding requires that the CSAs obtain audits for vendors that provide services under cost-based reimbursement contracts in excess of $50,000. In addition, they are to obtain audits for those providers that provide services under fixed or unit priced price contracts if the provider has an independent audit of its books and records. The Administration also requires the CSAs to review those audit reports to determine if there are any conditions that exist that would jeopardize that entity’s ability to continue to provide services to MHA consumers. In those instances, the CSA works with that provider agency to correct those problems.

The Administration will continue to monitor CSA compliance with this memorandum of understanding requirement. In addition, the Administration also performs retrospective reviews to evaluate the success of the grant, determine the need for the following year.
and establish or adjust the funding level. In FY2000 the Administration reduced the contract cited by the auditor by $218,453. It should be noted that many of the vendors with which the CSAs contract are large entities that offer services in many areas of health care and we may not have the ability to influence their operations to ensure that all findings and recommendations are addressed.

<table>
<thead>
<tr>
<th>Finding #11</th>
<th>Cash receipts were not adequately controlled by the Administration.</th>
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**Recommendation #11**
We recommend that the Administration ensure that all checks are recorded immediately upon receipt. We further recommend that an employee independent of the cash receipts function verify that all recorded collections were submitted for deposit with the Department’s central cashier and properly document this comparison.

Agency Response:
The Administration has implemented the recommendation by reassigning duties to promote good internal control. From October 2000 until November 2001, the Administration was unable to recruit and fill two long-term vacancies in accounting, which prevented the proper segregation of duties. One of these positions has been filled.

As noted by the auditors, in FY2001 the Administration received over $320,000 in cash receipts, the majority from the core service agencies for the balance of fee for service funds paid to them in a prior fiscal year. Less than $40,000 was received from other vendors ($10,000 from Dorchester county for funds deposited incorrectly by them, $16,250 repayment of a prospective advance to Boys and Girls Home, $4,736 for return of federal block grant funds by Baltimore Mental Health Systems, with the remainder being small amounts from emergency petitions and other vendors returned after they discovered the consumer had other insurance). The Administration anticipates that cash receipts in future years will be considerably less.
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