

Reportable Conditions in Internal Control over Financial Reporting**(I) Health Care Safety Net Administration Contract Management**

The Health Care Safety Net Administration (HCSNA) administers and monitors the contract between the District and the District of Columbia Health Care Alliance (Alliance). The Alliance was created to perform certain public healthcare functions previously provided by DC General Hospital. We noted the following weaknesses in HCSNA contract management:

Payment of Claims for Services Provided to Medicaid-Eligible Residents by the Alliance

Alliance members are required by HCSNA policy to serve all District residents presenting themselves for services under a policy of “presumptive eligibility.” After the service has been rendered, the Alliance verifies whether the resident was eligible for Medicaid at the time the service was rendered. Services provided to residents who are found to be Medicaid eligible are required to be reimbursed by the District’s Medical Assistance Administration (MAA).

During contract year 2002 and the majority of contract year 2003, the Alliance did not perform Medicaid eligibility verifications, and the District’s monitoring of the Alliance’s invoices did not detect this. We also observed that the District had not established procedures to help ensure that claims presented to the HCSNA for payment were not also submitted to and paid by MAA. Subsequent to September 30, 2003, the Alliance performed an analysis that indicated that approximately \$13 million in claims paid by the Alliance during contract years 2002 and 2003 were for District residents that were Medicaid eligible at the time the claim was presented for payment. Further, the HCSNA believes that some providers may have submitted claims to both the Alliance and MAA for payment. Procedures were established by the Alliance to cross-match HCSNA eligibility to Medicaid eligibility, and deny payment for Medicaid-eligible claims, beginning in contract year 2004.

The HCSNA has notified the providers who were paid for claims related to Medicaid-eligible services provided, to resubmit these claims to MAA and to refund the payments to HCSNA for the previous claim submission errors. We recommend that the HCSNA coordinate with the MAA to ensure that when the claims originally submitted to the Alliance are subsequently submitted for Medicaid reimbursement that the District recoup amounts previously paid to the provider by the HCSNA, if not previously refunded.

Comparison of Financial and Operational Data Supporting HCSNA Claim Payments

All invoices submitted by the Alliance are processed for payment by HCSNA financial personnel. These invoices are checked for clerical accuracy, and the rates being charged for specific services are compared to the Alliance contract for accuracy. However, they are not reviewed by HCSNA operational personnel who are knowledgeable of and could assist the HCSNA financial personnel in assessing the reasonableness of the levels of service detailed on the invoices prior to payment. We recommend that both financial and operational personnel at HCSNA review all invoices prior to payment to ensure that the volume of services being invoiced appears reasonable. This review, combined with the additional eligibility oversight recommended above, will help ensure that the District is only paying for eligible services that have actually been rendered by the Alliance.

Management’s Response

Both OCFO and the HCSNA personnel review all requests for payment. However, the process is cursory and is limited to the availability of funds and the general terms of the contract. The Administrative Services Organization has the primary responsibility to review all requests relative to duplication of claims, Medicaid enrollees, covered and noncovered services, etc. The Department of Health (DOH) does not possess, nor is equipped to provide, “claims edit functions” for the Alliance program. Procedures were put

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in place to ensure that the Administrative Services Organization becomes more vigilant in the processing and adjudicating of Alliance claims. The HCSNA has instituted a process to penalize any partner who fails to perform to the terms of the contract. Several audits are being conducted to ensure that the partners are aware of their responsibilities with respect to eligibility, enrollment, and billing for Alliance services.

Reportable Conditions in Internal Control over Financial Reporting**(II) District Medicaid Provider Accounting and Financial Reporting**

The District of Columbia Public Schools (DCPS) and the District's Department of Mental Health (DMH), provide a variety of Medicaid services to eligible District residents. The costs incurred by these agencies are summarized in cost reports that are submitted to MAA for approval and subsequent audit before being submitted to the federal government for reimbursement. Total Medicaid reimbursements for these agencies average almost \$90 million per year. We noted the following matters that have hindered the District's ability to accurately estimate and record amounts owed from the federal government for eligible services provided on a timely basis:

- The DMH did not have a system in place to accumulate accurate encounter data and other information from which to prepare monthly claims reports nor annual cost reports until FY 2003. As a result, estimated claims reports and prior year cost reports were not always supportable by the underlying documentation. In fact, receivables recorded at fiscal year end during the annual closing process, were often based on budgetary estimates, less any interim payments actually received from the federal government through MAA. As a result, estimated receivables for FY 1999 and prior were fully reserved during FY 2001. During FY 2003, the submitted cost report for FY 2000 was subjected to audit by MAA, and based on the results of that audit and other analyses of outstanding receivables performed by a new DMH management team; a significant portion of the receivable balances previously recorded for FY's 2000 and 2001 were adjusted downward to a more realistic estimate of ultimately recoverable costs. Management believes the system implemented during FY 2003 will eliminate the problems that hindered its ability to prepare accurate financial reports in the past.
- DCPS incurs Medicaid reimbursable expenditures primarily related to services provided to special education students at selected District operated schools, by private schools, and by other third-party contractors. However, because the private schools and other vendors have not always provided sufficient or timely encounter data to the DCPS Medicaid program office, many of these costs have been considered ineligible for federal reimbursement upon audit by MAA. Beginning in FY 2002, the DCPS Medicaid program office contracted with a third-party servicer to assist it in obtaining and processing encounter data from vendors to improve its ability to receive Medicaid reimbursements. However, the ultimate success of this arrangement in obtaining increased federal reimbursements has not been tested, as Medicaid cost reports for FY's 1999 through 2002 have yet to be submitted to MAA. Further, DCPS does not require charter schools to submit encounter data and as a result, does not apply for any Medicaid reimbursement for potentially eligible services provided by these schools. The failure to submit prior year cost reports and to obtain encounter data from the charter schools has resulted in the use of local source dollars to fund what might otherwise be federally reimbursable costs.

We recommend that the OCFO work closely with all District agencies providing services that are eligible for Medicaid reimbursement to ensure adequate systems are in place to identify and accumulate the information needed to prepare accurate claims for reimbursement, and to record receivables related to these claims timely and in the appropriate funding source (local or federal). Resolving the record-keeping issues will allow the District to maximize its federal reimbursement and ensure that local dollars are used only to the extent necessary to meet the federal matching requirements, not to fund otherwise reimbursable expenditures. We further recommend that the OCFO require these agencies to perform hard closes on their Medicaid information at least quarterly to ensure that MAA and other District management has accurate information throughout the year upon which to make policy decisions.

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Additionally, we recommend that DCPS require Medicaid service providers and charter schools to provide relevant encounter data to permit DCPS to bill MAA timely and in sufficient detail to ensure claims for reimbursements are not denied. We understand that requiring such information from the service providers and charter schools may not be possible under existing contracts. Because the special education program, and the required payments to service providers are under various court orders, it may be necessary to petition the Court to require service providers to provide such information in a timely manner.

Finally, we recommend that DCPS submit its cost reports for FY's 1999 through 2002 as soon as practicable and that MAA devote the resources necessary to audit these reports as soon as possible after receipt. The results of the audits, as completed, should be used to modify the new cost accumulation process, as necessary, and adjust existing receivable balances related to these prior years in SOAR.

Management's Response**DMH – Management's Response**

The Department of Mental Health continued its operational assessments in this area of concern and has addressed this finding through the support and redesign of business processes. DMH has implemented policies and procedures to improve patient revenue reporting. DMH is implementing, with the assistance of Healthcare Perspectives, a revenue and accounts receivable system to capture and track billing operations, adjustments and collections by provider, units and period of services codes, etc. This system is expected to be operational before the close of FY 2004. This will assist with the FY 2004 closing process. Currently, the detailed data is being collected manually and is being collected with the focus on claim submission and recovery activities to comply with billing operations.

DMH is focused on continuing to provide accurate information for claims processing and will continue to do so to ensure information provided supports and substantiates payments. DMH has assigned a new manager to focus solely on improved billing and reporting. Receivables are booked based on the manual data collection in place, therefore, receivables reflect the realizable collectible value.

DCPS – Management's Response

DCPS has made a large investment in critical resources and expertise to improve the delivery of the special education services, funding programs through increasing Medicaid reimbursement, strengthening administrative services, and developing overall accountability. DCPS has also implemented a structured plan that uses systems, personnel, and training elements to improve the overall performance of the Medicaid program. As part of this plan, the following key actions are in process or have been completed to lay the foundation for future growth and continued improvements.

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(III) Human Resource/Payroll Process Management

Over 40% of the District's annual operating expenditures are for employee compensation and benefits. The maintenance of employee personnel information such as personnel action forms and withholding authorizations is a critical component of internal control over the payroll process. Time sheets documenting (1) the hours worked by employees, (2) related grants or other projects charged, and (3) supervisory review and approval must also be maintained. We noted the following matters impacting the District's ability to effectively manage its payroll process:

- Five of ten employee timesheets selected for review at the Metropolitan Police Department (MPD), lacked evidence of appropriate management authorization, review, and approval of hours worked. We were able to identify other sources of information, such as daily work logs maintained at the MPD to substantiate the hours worked.
- Evidence of a properly approved employee leave slip supporting personal time charged on a time sheet selected for review, could not be provided. This is a violation of District policy. However, we observed that the time sheets detailing the employee leave did contain the employee's supervisor's authorization.
- Personnel files were inadequately maintained as evidenced by (1) a number of missing files, (2) files that contained information for more than one employee, (3) incomplete files where appropriate withholding authorization forms were missing, and (4) inadequate physical safeguards over files at storage locations.
- Terminated employees were not always removed from the payroll systems timely. In fact, we noted instances in which the names of employees who have not worked for the District since 1999, are still on the payroll system.
- At DCPS, pay increases for approximately 3,200 DCPS employees were not processed on a timely basis by the human resources and payroll departments due to the complexity of the computations required, and DCPS' inability to program the current payroll system to compute these pay raises automatically. DCPS employees were owed approximately \$6 million for unprocessed pay increases as of September 30, 2003.
- Supplemental payments, such as signing and performance bonuses, were approved by the Superintendent without appropriate oversight by the School Board.

To improve internal control over the payroll process we recommend that the District:

- Provide training to agency timekeepers on documentation methods to ensure that information is on file for all time sheets, annual leave, and sick leave forms. This could be achieved through the development of a standardized checklist identifying all required personnel file documentation.
- Establish a methodology for employee file maintenance and related physical safeguards at each file room and assign responsibility for these matters to a single employee at each location.
- Reinforce established procedures for removing terminated employees from the payroll database to ensure that they are processed timely.
- Monitor the timing of pay increases more closely to ensure that all pay rate changes are processed timely.
- Establish policies and procedures at DCPS requiring that all special payments of more than \$5,000 made to employees and approved by the Superintendent, be approved by the School Board.

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Management's Response

Office of Personnel (DCOP) – Management's Response

- The Office of Personnel will serve as a partner with the OCFO Office of Pay & Retirement Services in determining the training needs of agencies (specifically MPD) to assist that agency in maintaining better controls of its time and attendance work logs, inclusive of approved leave slips.
- The Office of Personnel is responsible for the filing and maintenance of official personnel files (OPFs) for agencies under the Executive Office of the Mayor, in two locations. DCOP utilizes the state-of-the-art OPUS32 SQL filing system – maintained by a dedicated staff of records management assistants. The two DCOP records management centers are supervised by an experienced records manager.
- Employees are terminated via receipt of personnel actions approved by EOM agencies, only. If DCOP is not notified that an employee is no longer employed via agency personnel action, there is no authority to terminate a record. On a bi-weekly basis, the OCFO and the Office of Pay and Retirement Systems distributes a report that identifies employees in an active status but receiving no pay for the review and appropriate action of agency HR advisers/CFO staff. DCOP will hold the HR advisers in all EOM and independent agencies responsible for transmitting personnel actions for terminating employees. It should be noted, however, that some employees are reentered and/or retained in the HR/payroll system to effect specific payments due to retroactive pay adjustments, garnishments, or law suits. As soon as the payments are made DCOP terminates the record again. Finally, within any given tax year – terminated records are retained in the payroll system for W-2 reporting purposes, only. This is an acceptable accounting practice for tax reporting.

MPD – Management's Response

The Office of the Chief Financial Officer for the MPD will provide additional training to Roll Call staff and Time and Attendance Personnel to ensure that there is a more defined segregation of duties and that there can be no appearance of improprieties with the time capture process.

OPRS – Management's Response

- The Office of Pay and Retirement Services will contact District agency financial staff to determine their needs for payroll and time and attendance training.
- The Office of Pay and Retirement Services now provides a report each pay period that identifies employees who are active but receive no current pay. This report is distributed to agency personnel offices as well as agency financial staff. This report should be used to research employees' status and determine if a personnel action for termination is warranted.
- The timeliness of updating the pay systems due to bargaining agreement pay changes is directly related to the date negotiations are completed between unions and management. During FY 2003 many of the pay increases for DCPS were submitted late due to a delay in negotiations beyond the effective day of the pay increases. This resulted in retroactive pay.
- The Office of Pay and Retirement Services will rely on the DCPS Chief Financial Officer to ensure that special payments greater than \$5,000 have been properly approved by the Superintendent and the School Board prior to submission to this office.

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DCPS – Management’s Response

Policies are in draft form relative to special payments. As recommended, all special payments of more than \$5,000 made to employees must be approved by the superintendent and the School Board.

DCPS OCFO has partnered with various city agencies in order to effectuate the payment of steps and retros for all employee groups. As of March, 16, 2004 5,000 employees had been paid and brought up to date relative to steps and retro payments. Currently OSO and WTU groups are being brought up to date and we estimate they will be caught up no later than August 2004.

Reportable Conditions in Internal Control over Financial Reporting**(IV) Unemployment Compensation Claimant File Management**

The District's Department of Employment Services (DOES) is responsible for the administration of the Unemployment Compensation Program. Under this program, the District made approximately \$100 million in unemployment benefit payments to unemployed former District employees, and to former employees of private and federal agency employers.

While testing internal controls over benefit payments, we selected 30 claimant files for review of documentation supporting the benefit payments. DOES was unable to locate 10 of the files we requested. Federal regulations require that documentation supporting all payments of unemployment claims be maintained. We noted that DOES has established policies and procedures requiring that such documentation be maintained; however, DOES does not have an adequate system for tracking the location of all claimant files. We recommend that DOES create a database tracking system to monitor the location of all claimant files and require that this database be updated each time a file is moved to a new location.

Management's Response**Economic Development & Regulation – Management's Response**

We accept the finding. The corrective action we have put in place is to track files through the use of outcards when any record is removed from an operating unit's files.