REPORT DIGEST

ILLINOIS DEPARTMENT OF PUBLIC AID

FINANCIAL AUDIT
For the Year Ended:
June 30, 1997
and
COMPLIANCE AUDIT
(In accordance with the Single Audit Act and OMB Circular A-128)
For the Two Years Ended:
June 30, 1997

Summary of Findings:

Total this audit	18
Total last audit	17
Repeated from last audit	2

Release Date:

State of Illinois
Office of the Auditor General

WILLIAM G. HOLLAND
AUDITOR GENERAL

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SYNOPSIS

- The Department did not have a well documented sampling plan in place that details its approach and methodology for selecting long term care providers to audit.

- The Department did not monitor certain operational activities of the Department of Mental Health and Developmental Disabilities and the Department of Public Health as required by an interagency agreement.

- The Department failed to adequately monitor payments made to nursing homes. We examined both open and closed audits conducted by the Department during FY96 and FY97 and noted that over $2 million had been paid to nursing homes for recipients no longer residing in the facilities.

- The Department shifted personnel costs to divisions for which workers had no responsibilities. This action circumvents the legislative appropriation process, distorts the cost of operating various programs, and violates the State Finance Act Payroll Certification.

- The Department did not completely define its needs and the requirements of an accounting system development project known as the Public Aid Accounting System (PAAS) prior to execution of a contract with the selected vendor. In the two fiscal years since the project was awarded to the vendor, the original contract has been amended three times, four additional contracts or agreements have been executed with the vendor, and four task orders have been charged to a CMS master contract. The Department's total obligations with the vendor have increased from $3.4 million to $13.6 million and the Department currently estimates an additional $1 million will be needed to complete the project.

- The Department did not group certain clinical laboratory tests together when calculating the amount of allowable reimbursement, thereby resulting in overpayments to service providers.

- The Department did not have written procedures in place to ensure that a person receiving a general assistance grant did not receive a duplicate grant from a township general assistance program that receives State funds.

{Expenditures and Activity Measures are summarized on the reverse page.}

DEPARTMENT OF PUBLIC AID
FINANCIAL AND COMPLIANCE AUDIT
For The Two Years Ended June 30, 1997

EXPENDITURE STATISTICS	FY 1997	FY 1996
! **Total Expenditures (All Funds)......................**	**$7,281,254,377**	**$7,570,502,000**
OPERATIONS TOTAL..	$710,723,047	$654,884,359
% of **Total** Expenditures..........................	10%	9%
Personal Services....................................	$301,868,766	$289,142,765
% of Operations Expenditures............	42%	44%
Average No. of Employees.................	9,076	9,029
Other Payroll Costs (FICA, Retirement, Group Insurance).....................................	$57,910,368	$54,885,333
% of Operations Expenditures............	8%	8%
Contractu[redacted]	$112,305,286	$108,349,312
% of Operations Expenditures............	16%	17%
All Other Operations Items.......................	$238,638,627	$202,506,949
% of Operations Expenditures............	34%	31%
AWARDS AND GRANTS................................	$6,554,941,350	$6,900,279,187
% of **Total** Expenditures..........................	90%	91%
REFUNDS..	$15,589,980	$15,338,454
% of **Total** Expenditures..................................	(Less than 1%)	(Less than 1%)
! **Cost of Property and Equipment...................**	**$91,849,000**	**$90,304,000**

SELECTED ACTIVITY MEASURES	FY 1997	FY 1996
! Analysis of Adjudication and Payment Patterns (Payments from General Revenue Fund)		
- Adjudication Processing Time In Calendar [redacted]..........	19.3 Days	51.4 Days
- Overall Average Time Elapsing In Calendar Days to Pay A Claim (See schedule on page 124).....	25.5 Days	57.5 Days
! Accrued Medical Costs Payable at June 30 (Page 44)	$596,688,000	$777,433,000

AGENCY DIRECTOR(S)
During Audit Period: Mr. Robert W. Wright Currently: Ms. Joan Walters

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

AUDIT SAMPLING METHODOLOGY FOR LONG TERM CARE PROVIDERS NEEDS TO BE IMPROVED

Sampling plan approach, methodology, and documentation should be enhanced

The Department's Bureau of Medical Quality Assurance (Bureau) did not have a well documented formal sampling plan in place that details its approach and methodology for selecting long term care providers for audit.

During our review of the policies and procedures of the Bureau for the fiscal years 1996 and 1997, we noted that $685,459 and $785,450, respectively, was spent by the Department to engage independent certified public accounting firms to perform nursing home audits. Department records indicate that 154 audits were completed in FY 1996 and 115 in FY 1997. The Department also completed 45 re-audits in FY 1996 and 30 re-audits in FY 1997.

Audits resulted in recovery of overpayments of approximately $8 million in FY96 and $7 million in FY97

One result of these audits was the recovery of approximately $8 million in FY96 and $7 million in FY97 in overpayments made by the Department to long term care facilities. In summary, approximately 1,200 nursing home institutions receive reimbursements from the Department and are subject to the Bureau's audit selection process. A total of 469 nursing homes were audited over a five-year period. Approximately 26% were audited more than once, with no one home being audited more than three times over this period. Overall, the Bureau performed 635 audits over a five-year period.

Nursing homes were selected for audit using an undocumented "risk based" approach

Although the Bureau used a "risk based" approach to determine which audits to conduct, we noted that the "risk assessment methodology" documentation needed to be enhanced. Further, the Department did not have in place a formal plan to ensure that all nursing home providers are selected for audit over a designated period of time or a documented reason why certain nursing home providers would not be audited. (Finding 1, pages 18-20)

Department had not implemented a plan to monitor other agencies' activities

We recommended the Department document its plan to monitor and track the frequency of nursing home audits. Also, the Department should adopt an audit plan that is supported by a well documented risk based approach.

Department officials responded that they disagreed with our finding and recommendation. In their response, they described the cost effectiveness of the nursing home audit program, and described the process used to select auditees.

In a further comment, the auditors pointed out that the Department's "risk assessment methodology" did not indicate the basic rules and selection criteria used in the risk identification process. Further, the risk assessment process of the Department is not formally documented in a comprehensive manner that indicates objectives, procedures, selection criteria and results for a risk based approach.

INSUFFICIENT MONITORING OF OPERATIONAL ACTIVITIES

The Department did not adequately monitor the operational activities of the Department of Mental Health and Developmental Disabilities (DMHDD) and the Department of Public Health (IDPH) as required by an interagency agreement negotiated pursuant to law.

The Department entered into an interagency agreement as of July 1, 1994 which required it to monitor the programs and services of the DMHDD and IDPH. We found that DPA had developed a plan during FY97 but had not implemented it. (Finding 2, pages 20-21)

Department officials agreed with our recommendation to implement the monitoring plan established during fiscal year 1997.

OVERPAYMENTS TO LONG TERM PROVIDERS

The Department failed to adequately monitor payments made to nursing homes.

Nursing homes were paid for recipients no longer residing at the facilities

We examined two open provider audits and found that $645,000 had been paid by the Department to nursing homes for recipients no longer residing in the facilities. We also noted $1,398,448 had been paid to nursing homes for recipients no longer residing at the audited facilities for audits closed for year ended June 30, 1996 and another $69,142 for the year ending June 30, 1997. The Department's local offices have responsibility to monitor nursing homes and their patients. Department policies and procedures, however, do not require the local offices to verify the accuracy of information submitted by nursing homes. (Finding 3, pages 21-23)

Improvements needed in monitoring payments to long term care providers

We recommended the Department create a system which would require nursing homes to provide the local offices with a recipient list each month in order to receive a payment for their claims.

Department officials agreed with our recommendation and stated that they and the Department of Human Services are jointly planning the implementation of electronic data collection of information regarding status changes for Medicaid patients residing in long term care facilities. When implemented the process will electronically update Department payment records and forward the patient status information to the local Human Service office for other activities.

IMPROPER EMPLOYEE TRANSFERS

The Department circumvented appropriation restrictions by transferring the salary costs of employees assigned to Central and Medical divisions to the payrolls of the Electronic Data Processing, Attorney General and Social Services Divisions.

Employees were transferred to avoid appropriation restrictions

The transfers were made only on paper (for payroll purposes) and were made apparently to make use of available appropriation authority in other Divisions. In total, 399 employees were transferred and the expenditures in question totaled $606,152. The State Finance Act (30 ILCS 105/9.03) requires the Director of the Department or the Director's designee to certify every payroll voucher as follows: "I certify that the employees named, their respective indicated positions and service times and appropriation to be charged, as shown on the accompanying payroll sheets are true, complete, correct and according to the provisions of law…". (Finding 5, pages 24-26)

We recommended the Department expend funds only for the purposes for which they have been appropriated. Further, the Department should properly plan future staffing levels within the appropriation received from the General Assembly.

The Department disagreed with our finding and recommendation. In its response, the Department stated its belief that personal services funds are allocable to all programs administered by the Department, that the Department's budget is negotiated and agreed upon in total and not by specific appropriation levels, and that the Department is expected to change or move priorities and costs in order to live within the total negotiated budget.

In an auditor's comment, we pointed out the Department presented, and the General Assembly and Governor enacted, an appropriation bill specifying the level of personal services dollars for operating each of the Department's divisions. By moving personnel costs to divisions for which the workers have no responsibilities, the Department circumvents the legislative appropriation process, distorts the costs of operating various programs, and violates the State Finance Act Payroll Certification.

COST OVERRUNS IN ACCOUNTING SOFTWARE PROJECT

The Department did not completely define its needs and the requirements of an accounting system development project known as the Public Aid Accounting System (PAAS) prior to execution of a contract with the selected vendor. Significant cost overruns have been experienced on the project.

The Department published a Request for Proposals (RFP) for PAAS in January 1995. The lowest bidder submitted a proposal for $3.4 million, which was substantially less than the next lowest bid of $8 million.

The Department entered into a contract with the lowest bidder in June 1995. The RFP and the contract called for the vendor "to implement a fully integrated, double-entry financial accounting system" for the Department. In recommending the selected vendor, Department officials stated that "the accounting functionality of the software meets the required needs of the Department".

Obligations for accounting system costs have escalated from $3.4 million to $13.6 million

In the two fiscal years since the project was awarded to the vendor, the original contract has been amended three times, four additional contracts or agreements have been executed with the vendor, and four task orders have been charged to a master contract arranged with the same vendor through the Department of Central Management Services. The Department's total obligations with the vendor have increased from $3.4 million to $13.6 million, and the Department currently estimates an additional $1 million will be needed to complete the project.

Cost overruns

Some of the $10.2 million in cost overruns obligated through 1997 are attributed by the Department to events that were not foreseeable at the time the accounting system RFP was written. However, given the cost, timing, and frequency of contract amendments, additional agreements and task orders, we believe the Department's planning for the PAAS project could have been improved. (Finding 8, pages 28-29)

Review of contracting procedures needed

We recommended the Department review its contracting procedures to identify steps that can be taken to more thoroughly plan future large system development projects and limit substantial cost overruns.

Department officials agreed with our recommendation and stated the procurement process is currently under review and steps will be added to the process to assure that comprehensive planning occurs for future large development projects. Department officials, however, did not agree with the classification of all costs above the initial contract as "overruns" because certain issues could not be foreseen.

Failure to group clinical laboratory tests together

OVERPAYMENT OF CLINICAL LABORATORY TESTS

The Department did not group three clinical laboratory tests together when calculating the amount of allowable reimbursement.

Nongrouping results in increased costs

Certain tests frequently performed on automated equipment are less expensive when they are grouped together. The grouping or combining of the tests are called panels. A review of all claims paid for March 1997, related to three codes, indicated the Department paid approximately $81,700 more for clinical laboratory tests than it would have if the three tests were grouped into panels.

Department presently determining amount of overpayments and how to recover

The Department is in the process of: 1) changing its edits and notifying providers to include the three tests as automated panel tests and pay the tests at a lesser fee, and 2) determining the amount of overpayments to providers and how the recovery of overpayments will be accomplished. (Finding 6, pages 26-27)

Department officials agreed with our recommendation to strengthen its: 1) internal controls to ensure that the most efficient and economical cost reimbursement method is used, and 2) procedures for reviewing memoranda and other documents that are critical in determining the edits for clinical laboratory tests.

Procedures needed to ensure duplicate grant payments are not made

WRITTEN PROCEDURES NEEDED

The Department did not have written procedures in place, as required by the Public Aid Code, to ensure that a person receiving a general assistance grant did not receive a duplicate grant from a township general assistance program that receives State funds.

Public Aid officials stated there are approximately 770 individuals receiving grants from township assistance programs that receive State funds. Currently, if township officials suspect an individual is also receiving a general assistance grant from the Department, they call the local office to obtain information and ensure the individual is not receiving a general assistance grant from the Department. However, there are no formal procedures in place to ensure that proper verification is being requested in a consistent and effective manner. (Finding 17, pages 35-36)

We recommended the Department adopt formal procedures to ensure that individuals receiving general assistance grants do not also receive duplicate grants from township general assistance programs that receive State funds.

Department officials responded that on March 4, 1998 the Department of Human Services (DHS) sent written procedures to all DHS local offices having one or more general assistance units. Receiving townships were instructed to submit a quarterly listing of their caseload to the appropriate DHS local office which will then complete a clearance on each case and report the results to the township general assistance office.

OTHER FINDINGS

The remaining findings are of lesser significance and are reportedly being given attention by the Department. We will review the progress towards the implementation of our recommendations in our next compliance audit.

Ms. Mary Fritz, Chief Internal Auditor for the Department, provided written responses to our findings and recommendations.

AUDITORS' OPINION

Our auditors state the Department's financial statements as of June 30, 1997 are fairly presented.

WILLIAM G. HOLLAND, Auditor General

WGH:JTD:pp

SPECIAL ASSISTANT AUDITORS

KPMG Peat Marwick LLP were our special assistant auditors for this audit.