



**REPORT OF
THE
STATE AUDITOR**

Overexpenditure of Medicaid Funds

Financial Review

May 2001

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May 7, 2001

Members of the Legislative Audit Committee:

This report contains the results of our financial review of the \$10 million overexpenditure of Medicaid funds appropriated to the Department of Health Care Policy and Financing for Department of Human Services programs during Fiscal Years 1999 and 2000. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit was conducted in accordance with generally accepted auditing standards. We gathered information through interviews, reviews of documents and financial information, and analysis of data. Audit work was performed between February and May 2001.

We would like to express our appreciation for the assistance and cooperation extended by management and staff at the Department of Health Care Policy and Financing and the Department of Human Services.

TABLE OF CONTENTS

	PAGE
RECOMMENDATION LOCATOR	1
FINDINGS AND RECOMMENDATIONS	
MEDICAID FUNDS EXPENDED FOR DEPARTMENT OF HUMAN SERVICES	
PROGRAMS	3
 Analysis of Overexpenditures	4
 Responsibilities Need to Be Clarified	7
 Coordination and Communication Need to Be Improved	9
 Comprehensive Reconciliation and Review Procedures Are Needed	12
 Improvements in Accounting System Will Facilitate Reconciliation and Review	16

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	8	Assign responsibilities for overall cost control over Medicaid funding for Department of Human Services programs.	Department of Human Services	Agree	12/31/2001
			Department of Health Care Policy and Financing	Agree	12/31/2001
2	8	Follow State Fiscal Rules and statutes concerning expenditures by operating within fixed budgets when possible, and identifying and requesting approval for overexpenditures in a timely manner.	Department of Human Services	Agree	8/6/2001
			Department of Health Care Policy and Financing	Agree	8/6/2001
3	11	Improve coordination and communication relating to expenditures for Department of Human Services Medicaid-funded programs to ensure that expenditures are appropriately and consistently charged and that expenditures are transferred timely.	Department of Human Services	Agree	12/31/2001
			Department of Health Care Policy and Financing	Agree	12/31/2001
4	15	Institute a formal, quarterly process for reviewing and reconciling Medicaid expenditures for Department of Human Services programs recorded at the Department of Health Care Policy and Financing.	Department of Human Services	Agree	1/31/2002
			Department of Health Care Policy and Financing	Agree	1/31/2002

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
5	15	Improve management of Medicaid funds by (a) establishing monthly reconciliation processes to be followed by management and staff within Medicaid-funded programs and communicating problems timely to Department of Health Care Policy and Financing staff and (b) implementing an analytical review process over Medicaid activity so that possible areas for cost containment are identified.	Department of Human Services	Agree	1/31/2002
6	16	Follow generally accepted accounting principles related to accounts payable by (a) calculating appropriate year-end estimates for remaining Medicaid-funded program activity and communicating this information to the Department of Health Care Policy and Financing and (b) reviewing expenditures charged to accounts payable after year-end to determine that expenditures are charged to the appropriate fiscal year.	Department of Human Services	Agree	8/6/2001
7	17	Determine appropriate COFRS account code specifications.	Department of Health Care Policy and Financing	Agree	7/1/2001
			Department of Human Services	Agree	7/1/2001

Medicaid Funds Expended for Department of Human Services Programs

Purpose and Scope

In January 2001 the Joint Budget Committee (JBC) reviewed a supplemental budget request from the Department of Human Services to address Medicaid overexpenditures totaling approximately \$10.6 million in Fiscal Years 2000 and 1999. In the course of reviewing the request, the JBC became concerned about the management and control of Medicaid funds that are used for Department of Human Services programs. This audit reviews the overexpenditure and the controls that the Departments of Human Services and Health Care Policy and Financing have established to ensure that expenditures are recorded and reported accurately.

Background

The Department of Human Services (DHS) provides medical and mental health services to Medicaid-eligible individuals. Some of the services provided and individuals served are, among others:

- C Mental health services for the mentally ill.
- C Medical and health-related services for developmentally disabled individuals.
- C Medical and mental health services for needy children who are served through Child Placement Agencies.

DHS provides these services through various programs including the Medicaid Mental Health Capitation Program, Disability Determination Services Community Programs and Regional Center Programs, and Child Welfare/Child Placement Agencies (foster homes). All of these programs are paid by a combination of state general funds, federal Medicaid funds, and cash funds.

The Department of Human Services manages the mental health and medical services programs above. The Department of Health Care Policy and Financing

(DHCPF) administers the Medicaid program in Colorado. For Human Services programs, the Department of Health Care Policy and Financing makes Medicaid payments to providers directly, as reimbursement to Human Services for Medicaid-eligible expenditures, and as a pass-through of Medicaid funds through DHS to Colorado counties.

In the Fiscal Year 2001 legislative session, the Joint Budget Committee appropriated all Medicaid funds for Department of Human Services programs to the Department of Health Care Policy and Financing within a single appropriation line item. The same funds were also appropriated to Human Services under the cash fund exempt category. Human Services' appropriation was made in multiple line items, each representing funds available for specific programs. In Fiscal Year 1999 a total of about \$405 million was appropriated to mental health programs and medical service programs for eligible individuals. The appropriation rose 10 percent to about \$446 million in Fiscal Year 2000. These same funds were appropriated to the Department of Health Care Policy and Financing in a lump sum as general, federal, and cash funds.

Department of Health Care Policy and Financing Medicaid Transfer Appropriation for Department of Human Services Programs Fiscal Years 1999 and 2000		
	Fiscal Year 1999	Fiscal Year 2000
Appropriation	\$405,161,761	\$446,128,247
Source: Department of Health Care Policy and Financing portion of Long Bill, Fiscal Year 1999 and Fiscal Year 2000, "Transfer to the Department of Human Services" Line Item. Note: Appropriation amounts do not include general fund transfers made by the Department of Human Services to the Department of Health Care Policy and Financing or supplementals subsequent to January 2001.		

In Fiscal Year 2002, the funds will be appropriated within 18 different appropriation line items to the Department of Health Care Policy and Financing. This will not change the basic responsibilities of the two departments.

Analysis of Overexpenditures

After the \$10.6 million overexpenditure had been identified, the Department of Human Services attempted to determine which programs had overspent their budgets. This proved to be a very difficult task because of the serious deficiencies identified in this report. The Department of Human Services' analysis of the overexpenditure is shown in the following chart:

Department of Human Services Analysis Medicaid-Funded Program Expenditures for Fiscal Year 2000 Areas of Over- and Underexpenditures					
Division/Line Item	Appropriation (including Transfers) ¹	Expenditures Charged/ Revenue Earned ²	Difference		Percent (Over)/Under Appropriation
			Under-expenditure	Over-expenditure	
Mental Health Capitation	\$125,124,172	\$129,327,881		(\$4,203,709)	(3.4%)
Mental Health Institutes	\$1,544,571	\$4,204,229		(\$2,659,658)	(172%)
Community Fee-for-Service Mental Health	\$0	\$2,615,567 ³		(\$2,615,567)	(100%)
Child Welfare/Child Placement Agencies	\$1,745,241	\$4,273,153		(\$2,527,912)	(145%)
Antipsychotic Pharmaceuticals	\$14,768,473 ¹	\$13,657,756	\$1,110,717		7.5%
County Administration	\$12,331,139	\$11,354,172	\$976,967		7.9%
Developmental Disability Regional Center Programs	\$35,389,758	\$35,999,319		(\$609,561)	(1.7%)
Children, Youth & Families	\$57,918,671	\$58,020,336		(\$101,665)	(0.17%)
Disability Determination Services (Other)	\$100,000	\$0	\$100,000		100%
Information Technology Services	\$2,045,071	\$2,134,630		(\$89,559)	(4.4%)
Health & Rehabilitation Monitoring	\$1,412,752	\$1,412,420	\$332		.02%
TOTAL	\$252,379,848	\$262,999,463	\$2,188,016	(\$12,807,631)	
Net Difference				(\$10,619,615)	(4.2%)

Source: Department of Human Services analysis of Department of Health Care Policy and Financing COFRS reports and Department of Human Services documentation.

Notes:

- Due to a DHS staff analysis error, appropriation amounts included for Mental Health Capitation and Antipsychotic Pharmaceuticals do not include supplementals through February 2001. If these supplementals were included, the Mental Health Capitation overexpenditure would equal \$3,251,981, while the Antipsychotic Pharmaceuticals underexpenditure would equal \$158,989. The net overexpenditure would remain the same.
- Medicaid funds earned by Department of Human Services programs are recorded as COFRS revenue due from the Department of Health Care Policy and Financing within the Department of Human Services program appropriations; they are recorded as COFRS expenditures within the Department of Health Care Policy and Financing's Medicaid transfer appropriation.
- Due to a DHCPF staff calculation error, expenditures transferred to DHS for Community Fee-for-Service Mental Health were overstated by \$689,941. Thus, the adjusted expenditure and overexpenditure amount calculated as of February 2001 was \$1,925,626.

We independently analyzed the overexpenditure and were unable to determine with any certainty which programs actually overspent. We found (1) items that were miscoded, (2) estimated billing errors, and (3) amounts that were coded to the wrong fiscal year. Although the Department of Human Services calculated the over- and underexpenditures by program area, their analysis was incomplete in some areas and was based on numerous assumptions. Due to account coding problems discussed later in the report, staff could not determine in some cases the correct breakdown of expenditures within Human Services' budget areas. For example, Division of Youth Corrections and Child Welfare - Residential Treatment Center costs are tracked within two separate budget categories by Human Services staff; however, Medicaid expenditures for these programs are recorded within the same organizational code by Health Care Policy and Financing staff. In addition, we noted that Human Services staff did not perform reviews or performed incomplete reviews of activity charged to several program areas. Therefore, the chart above represents the Department of Human Services' best guess for overexpenditure amounts by program. We found that the categorization of at least \$5.2 million of the \$10.6 million overexpenditure outlined in the chart is questionable. For example:

- C Overexpenditures attributed to the mental health capitation program were not analyzed to determine whether the \$4.2 million portion of the overexpenditure identified in the chart above actually resulted from mental health capitation program activity. Also, Human Services staff did not use the correct appropriation amount for mental health capitation in their analysis; as a result, the overexpenditure attributed to mental health capitation was overstated by \$1 million.
- C Staff did not analyze \$252,000, or 9.5 percent, of the \$2.6 million overexpenditure charged to the mental health institutes.
- C Staff did not analyze activity charged to the Disability Determination Services Regional Center Programs to determine if the \$609,561 overexpenditure attributed to the program was an accurate amount.
- C Staff did not analyze the \$89,559 overexpenditure attributed to Information Technology Services (ITS).

We noted that, after the Medicaid overexpenditure was identified, Human Services staff spent many hours analyzing activity related to the overexpenditure in order to determine what programs or situations may have caused the overexpenditure. This additional effort would not have been necessary if both Human Services and the Department of Health Care Policy and Financing had sufficient internal controls to prevent errors from occurring. Our concerns are addressed in the comments and recommendations that follow.

Responsibilities Need to Be Clarified

During our review it became apparent that there is little accountability for expenditures of Medicaid funds related to mental health services and health-related services for, among others, developmentally disabled individuals and children in foster homes. We found little evidence that accounts had been reviewed, amounts reconciled, and expenditure trends evaluated. For example:

- C Because Department of Human Services staff did not adequately review Medicaid expenditures, staff did not determine until November 2000 that over \$3 million of Fiscal Year 1999 Medicaid activity was coded against the Fiscal Year 2000 appropriation. This contributed to the \$10.6 million overexpenditure. The departments, therefore, did not adhere to State Fiscal Rules requiring them to identify the overexpenditure timely and notify the State Controller's Office of the overexpenditure.
- C Health Care Policy and Financing staff do not routinely review activity posted to their Medicaid transfer appropriation. Staff indicate they are only recording expenditures resulting from Human Services program activity, so they do not have the knowledge to determine if transactions posted to the appropriation are appropriate.

Currently the Department of Health Care Policy and Financing pays the bills, ensuring that expenditures are proper and eligible for federal Medicaid reimbursement. The Department of Human Services sees its role as administering various Medicaid-funded programs, such as mental health capitation and services for developmentally disabled individuals. It is evident that neither department has assumed responsibility for managing and controlling costs for Medicaid-funded programs. Neither department has reviewed expenditure trends or analyzed data to identify coding problems or possible overexpenditures. The \$10.6 million overexpenditure resulted in part from this lack of accountability.

Lack of accountability is of great concern. The State spent over \$466 million in general, federal Medicaid, and cash funds on these programs in Fiscal Year 2000. The State needs accurate information on expenditures in order to forecast budgets, develop rates, and control costs. Also, statutes clearly state that agencies are not to expend funds without legal authorization and outline specific steps to be taken to obtain approval from the State Controller and Governor for such expenditures. We believe that the departments must work together to ensure that expenditures for Human Services Medicaid-funded

programs are appropriately managed and that the two departments are in compliance with budgetary and statutory requirements.

Recommendation No. 1:

The Department of Human Services and the Department of Health Care Policy and Financing should work together to assign responsibilities for overall cost control over Medicaid funding for Department of Human Services programs.

Department of Human Services Response:

Agree. The Colorado Department of Human Services recognizes and concurs with the need for increased accountability over Medicaid funding for programs administered by the Department. On April 24, 2001, the two departments met to begin the process of assigning duties and responsibilities to achieve accountability. We anticipate an implementation date of December 31, 2001.

Department of Health Care Policy and Financing Response:

Agree. The Department of Health Care Policy and Financing is firmly committed to working with the Department of Human Services to ensure that all responsibilities for Medicaid-funded programs are clearly and completely delineated between the two departments. On February 1, 2001, in an email from the Department of Health Care Policy and Financing's Acting Executive Director, the Department of Health Care Policy and Financing asserted its intention to build quarterly reconciliation and monitoring protocols, and to build and implement fiscal closeout procedures. The new Long Bill format for Fiscal Year 2002 should assist us in this effort. We plan to have an implementation date of December 31, 2001.

Recommendation No. 2:

The Department of Human Services and the Department of Health Care Policy and Financing should follow State Fiscal Rules and statutes concerning expenditures by operating within their fixed budgets when possible, and identifying and requesting approval for all unavoidable overexpenditures in a timely manner.

Department of Human Services Response:

Agree. DHS will follow State Fiscal Rules and statutes concerning expenditures by operating within fixed budgets, when possible, considering the nature of the entitlement program, and requesting approval for unavoidable overexpenditures in a timely manner. This process will occur in tandem with the Department of Health Care Policy and Financing's analysis of information relevant to expenditures, projections and budget supplemental requests. This recommendation will be implemented for the close of State Fiscal Year 2001 at June 30, 2001, by August 6, 2001.

Department of Health Care Policy and Financing Response:

Agree. The Department of Health Care Policy and Financing will ensure that it complies with State Fiscal Rules and report any overexpenditure to the State Controller in a timely manner. This recommendation will be implemented for the close of State Fiscal Year 2001 at June 30, 2001 by August 6, 2001.

Coordination and Communication Need to Be Improved

We found that there is a lack of coordination and communication between the two departments with respect to the management of Medicaid funds for Department of Human Services programs. Specifically, staff are not coordinating efforts or communicating essential information related to expenditures charged to the appropriation to ensure that the Medicaid expenditures are appropriate. As a result, problems exist. Two examples are summarized below:

Mental Health Capitation Fee-for-Service Costs

The Department of Health Care Policy and Financing staff did not consistently record expenditures for mental health services provided on a fee-for-service basis. We found that staff charged about \$2.6 million in estimated fee-for-service expenditures to the Medicaid capitation organizational code within the Medicaid transfer appropriation in July 2000. However, Fiscal Year 1999 fee-for-service expenditures were charged to the Department of Health Care Policy and Financing and were never transferred to Human Services. In addition, the

Fiscal Year 2000 fee-for-service expenditures were charged to Human Services in one lump sum at the end of the fiscal year. The Department of Health Care Policy and Financing staff indicated that they were unable to determine the amount of the costs that should be transferred to Human Services for Fiscal Year 1999 due to the change in Medicaid fiscal agents and the implementation of the new Medicaid Management Information System (MMIS) in December 1998. We also noted that because of a total breakdown in communication between and within the departments, Human Services program and accounting staff were not notified of the Fiscal Year 2000 fee-for-service charge. Human Services staff indicated that they did not budget for these costs because Health Care Policy and Financing staff had not charged the costs to the appropriation in the past. In part as a result of these costs, the mental health capitation portion of the appropriation was overexpended.

Accounts Payable Accrual

Once the Fiscal Year 1999 accounts payable accrual for the Medicaid cash exempt funds was exhausted, Health Care Policy and Financing staff changed the interface between the Medicaid Management Information System (MMIS) and COFRS (the State's accounting system) to shift \$3.2 million of remaining Fiscal Year 1999 expenditures to the Fiscal Year 2000 appropriation. Health Care Policy and Financing staff did not differentiate these expenditures in COFRS from other Fiscal Year 2000 expenditures so that they could be properly reclassified as prior-year activity.

Properly differentiating expenditures is important for both budgeting and rate-setting purposes. Erroneous baseline data will result in forecasting errors and may result in subsequent year overexpenditures. As noted, the \$3.2 million of Fiscal Year 1999 activity coded to Fiscal Year 2000 resulted in a Fiscal Year 2000 overexpenditure. In addition, generally accepted accounting principles require expenditures to be coded to the year in which they were incurred. We noted that, again, due to a breakdown in communication between and within the departments, Human Services program and accounting staff were not notified of the switch to add prior year expenditures to the Fiscal Year 2000 appropriation.

Health Care Policy and Financing staff indicated that, beginning in Fiscal Year 2001, they have implemented account coding changes so prior year activity charged to the current year appropriation is differentiated from current year activity. However, staff from both departments indicate that they have not established policies for charging costs to the Medicaid transfer appropriation or agreed on procedures to be followed when accounts payable accruals are exhausted and prior year activity remains. The two departments need to work together to establish protocols such as instituting quarterly transfers of

expenditures and documenting policies and procedures for charging expenditures so that problems can be avoided in the future.

Recommendation No. 3:

The Department of Human Services and the Department of Health Care Policy and Financing should work together to improve coordination and communication relating to expenditures for Department of Human Services Medicaid-funded programs to ensure that expenditures are appropriately and consistently charged and that expenditures are transferred timely. This should include establishing and documenting policies and procedures for charging Medicaid expenditures for Department of Human Services programs.

Department of Human Services Response:

Agree. It is recognized that development and documentation of policies and procedures for charging Medicaid expenditures for Department of Human Services programs will assist in the coordination and communication relating to expenditures for Medicaid-funded programs within DHS. DHS will cooperate with DHCPF to ensure formal communication occurs regularly, timely, and accurately to the appropriate Department personnel. DHS will initiate this recommendation in Fiscal Year 2002, with outlines available by December 31, 2001.

Department of Health Care Policy and Financing Response:

Agree. We will fully cooperate with DHS staff to ensure that all expenditures are properly charged in a manner that allows them to monitor the cost of their programs. We have always informally notified Human Services staff of the status of their payable accounts; we will ensure that all interaction is formal and in writing in the future. We will also work with DHS staff to ensure they have the tools that they need to perform detailed monitoring of expenditures and activity. Implementation of this recommendation is scheduled for December 31, 2001.

Comprehensive Reconciliation and Review Procedures Are Needed

We found that neither the Department of Human Services nor the Department of Health Care Policy and Financing is performing critical reconciliations. For example, we found that Human Services Health and Rehabilitation staff do not reconcile all amounts charged to the Health Care Policy and Financing capitation organizational code to supporting documentation to determine that expenditures are appropriate or to anticipate and identify overexpenditures. While Health and Rehabilitation staff reconcile Medicaid Management Information System (MMIS) and COFRS information for Mental Health Assessment and Service Agency (MHASA) payments on a monthly basis, no one reconciles other activity posted to the capitation organizational code to supporting documentation. As noted earlier, we also found that mental health institute staff did not analyze about \$250,000 of the overexpenditure attributed to their program.

This lack of review is problematic in part because errors may not be detected or detected timely. We found several coding errors that were not detected timely by staff within either department. Specifically:

- C Nearly \$116,000 in provider payments were erroneously charged to the mental health institute organizational code by the Department of Health Care Policy and Financing in Fiscal Year 2000. About \$30,000 of the payments was attributed to Fiscal Year 1999 activity. Department of Human Services staff did not identify the error until January 2001 when they were analyzing the overexpenditure. No entry was made to reclassify the expenditures to the proper organizational code because neither department reviewed the provider payments to determine where they should have been charged.
- C Health Care Policy and Financing staff erroneously charged all mental health institute Medicaid activity to a non-transfer appropriation during the first six months of Fiscal Year 2000. They did not identify the error and correct the problem until January 2000. Human Services staff did not realize this error had occurred until they were reviewing Fiscal Year 2000 activity in January 2001.
- C The \$2.6 million in estimated fee-for-service costs charged to the transfer appropriation for Fiscal Year 2000 was \$690,000, or 36 percent, higher than actual fee-for-service costs, due in part to a Health Care Policy and Financing staff compilation error. Staff determined

only after receiving an inquiry from DHS staff in January 2001 that an error existed in the methodology used for the calculation.

We also found that Human Services staff did not determine until the end of Calendar Year 2000 that they did not make appropriate expenditure and accounts payable estimates at the end of Fiscal Year 1999 for all Medicaid-funded programs, or provide the information to Health Care Policy and Financing staff. Prior to Fiscal Year 2001, Health Care Policy and Financing staff coded all Human Services Medicaid expenditures to one accounts payable account. As a result, Medicaid payments made in Fiscal Year 2000 for Fiscal Year 1999 activity for some Human Services programs were coded against accounts payable accruals established for other programs. This caused some programs to appear to be overexpended for Fiscal Year 2000 when they may not have been.

When analyzing information related to the overexpenditure, Human Services staff also found additional errors within the following program areas that had not been identified previously:

Child Welfare/Child Placement Agencies

The \$2.5 million overexpenditure attributed to Child Welfare/Child Placement Agencies was due to two Human Services staff errors concerning the Child Placement Agency transfer program. Although this program is intended to have no general fund impact since it only involves a transfer of general funds, the two errors resulted in a \$1.26 million general fund overexpenditure for the program.

County Administration

The federal portion of the County Administration share of the appropriation was overstated by \$994,360 due to a booking error made by Health Care Policy and Financing staff. The error occurred when staff were booking general fund transfers from Human Services to Health Care Policy and Financing at the end of the fiscal year, as authorized by statute. Due to an offsetting \$17,393 County Administration overexpenditure, the net underexpenditure equaled \$976,967.

Children, Youth, and Families

The \$101,000 overexpenditure of the Children, Youth, and Families portion of the appropriation was due to House Bill 99-1116 expenditures that were erroneously charged to the Medicaid transfer appropriation. This bill established a program to provide mental health services for children who are not categorically eligible for Medicaid. Prior to Fiscal Year 2002 no amount was included in the Medicaid transfer appropriation for this program.

The Departments Need to Monitor Expenditures and Establish Procedures Over Medicaid Appropriations

The lack of review over Medicaid expenditures for Human Services programs is troubling for several reasons. First, Medicaid expenditure errors have serious budget implications for the State due to TABOR limits, because Medicaid has a great impact on the demand for general funds. Specifically, the Medicaid program requires a 50 percent general fund match.

In addition, the State lacks accurate information for rate-setting in the mental health managed care program. Since the Department of Human Services does not have a comprehensive review process over the expenditures charged to the mental health capitation system, it cannot be sure that rates are appropriate.

Finally, Department of Human Services staff lack necessary information to determine which programs are overexpending their portion of the appropriation. This is important because while some of the programs are entitlement programs and, therefore, may under- or overexpend their appropriation, other programs are expected to fully operate within their budgets.

It is, therefore, essential for both departments to implement stronger controls. This should include establishing ongoing, comprehensive reconciliation processes between the two departments and within the Department of Human Services programs. This will assist department staff with identifying errors and potential overexpenditures. Department of Human Services staff should also implement an analytical review process over Medicaid cash exempt expenditures so that they can identify areas where costs may be contained. Finally, Human Services staff must also ensure that, in future years, they appropriately estimate and accrue accounts payable as required by State Fiscal Rules and generally accepted accounting principles.

By making these improvements, the departments can help ensure that Medicaid expenditures for Human Services programs are appropriate, Human Services has accurate information for budgetary and planning purposes, and the State's financial statements appropriately reflect the amount and nature of financial transactions and balances.

Recommendation No. 4:

The Department of Human Services and the Department of Health Care Policy and Financing should institute a formal, quarterly process for reviewing and reconciling Medicaid expenditures for Department of Human Services programs recorded at the Department of Health Care Policy and Financing. This reconciliation should be documented and approved by the departments' controllers.

Department of Human Services Response:

Agree. DHS will institute a quarterly reconciliation process that will be documented and approved by the departments' controllers. Implementation of this recommendation is scheduled for close of period 6 of State Fiscal Year 2002 at December 31, 2001, and the reconciliation process will be completed by January 31, 2002.

Department of Health Care Policy and Financing Response:

Agree. The Department of Health Care Policy and Financing is firmly committed to working with the Department of Human Services to ensure that formal quarterly review and reconciliation of DHS Medicaid expenditures occurs and is properly approved. Implementation of this recommendation is scheduled for close of period 6 of State Fiscal Year 2002 at December 31, 2001, and the reconciliation process will be completed by January 31, 2002.

Recommendation No. 5:

The Department of Human Services should improve its management of Medicaid funds by:

- a. Establishing monthly reconciliation processes to be followed by management and staff within Medicaid-funded programs and communicating problems timely to Department of Health Care Policy and Financing staff.
- b. Implementing an analytical review process over Medicaid activity so that possible areas for cost containment are identified.

Department of Human Services Response:

Agree. The reconciliation and review process will occur on a monthly basis. The processes for accomplishing this task are anticipated to begin during Fiscal Year 2002 and to be established on a regular basis second quarter Fiscal Year 2002 close. The reconciliation process will include analytical review, which will assist in the mitigation of unforeseen overexpenditure. Implementation date: January 31, 2002.

Recommendation No. 6:

The Department of Human Services should follow generally accepted accounting principles related to accounts payable by:

- a. Calculating appropriate year-end estimates for remaining Medicaid-funded program activity for all Department programs and communicating this information to the Department of Health Care Policy and Financing.
- b. Reviewing expenditures charged to accounts payable after year-end to determine that expenditures are charged to the appropriate fiscal year.

Department of Human Services Response:

Agree. The 1999 fiscal year-end accounts payable accrual did not contain an estimate for the Mental Health Capitation program. DHS will implement internal controls to ensure that accounts payable are properly recorded and accounted for in accordance with generally accepted accounting principles. Analytical review will determine the point in time that additional spending authority may be necessary. Implementation date: August 6, 2001.

Improvements in Accounting System Will Facilitate Reconciliation and Review

According to Department of Human Services staff, the current coding structure within the Department of Health Care Policy and Financing's Medicaid transfer appropriation on the State's accounting system resulted from discussions between the two departments prior to Fiscal Year 1999. However, we found that the current coding does not allow Human Services staff to easily monitor

program expenditures. Specifically, Medicaid funds for Human Services programs are budgeted differently within Human Services than they are recorded as expenditures by Health Care Policy and Financing. For example:

- C While the Department of Human Services has a budget category for the Executive Director's Office, Medicaid funds expended for this area are coded among four different organizational codes by Department of Health Care Policy and Financing staff.
- C Division of Youth Corrections and Child Welfare - Residential Treatment Center costs are tracked within two separate budget categories by Department of Human Services staff; however, Medicaid expenditures for these programs are recorded within the same organizational code by Department of Health Care Policy and Financing staff.
- C Fee-for-service mental health services and antipsychotic drug costs are both recorded within the capitated mental health services organizational code on COFRS. This is problematic because fee-for-service and capitation payments are significantly different payment methods and should be tracked separately.

As noted, beginning in Fiscal Year 2002, Medicaid funds for Human Services programs will be budgeted at the Department of Health Care Policy and Financing within 18 appropriation codes rather than within one. The departments will need to make changes to COFRS coding in order to incorporate the new budget breakdown. They will need to work together to refine their tracking process to clearly differentiate between types of costs. This will allow Human Services staff to appropriately monitor expenditures by program.

Recommendation No. 7:

The Department of Health Care Policy and Financing should work with the Department of Human Services to determine necessary COFRS account code specifications and make these changes as appropriate.

Department of Health Care Policy and Financing Response:

Agree. DHCPF staff have always been very open to what coding DHS staff want to use. We have made all changes that they have requested. DHS staff's input was gathered in the design of the State's new MMIS

system, which was implemented in December of 1998. We have in the past and will continue to do what we can within the limitations of our system to meet their coding and information needs. Implementation of this recommendation will be completed on July 1, 2001 in order to comply with the Long Bill format for Fiscal Year 2002.

Department of Human Services Response:

Agree. DHS will work with DHCPF to determine that appropriate account codes are in place to provide information necessary to analyze, review, reconcile, and provide prospective information relative to Medicaid-funded programs administered by DHS. This process will be complete by July 1, 2001.

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