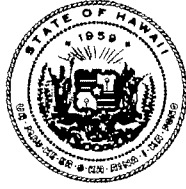


LINDA LINGLE
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STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES

P. O. Box 339
Honolulu, Hawaii 96809-0339

May 24, 2010

Refer to: 10:0305

HHS RESOLUTION OFFICIAL
Department of Health and Human Services
ASRT/Office of Finance, Division of Systems Policy,
Payment Integrity, and Audit Resolution
HHH Building, Room 549D
200 Independence Avenue SW
Washington, DC 20201

Gentlemen:

We are responding to the letter dated April 16, 2010, issued under CIN A-09-10-94729, on the initial review completed by the DHHS Office of Inspector General. The review was of the audit report on the Department of Human Services for the fiscal year ended June 30, 2008. The audit was performed by N & K, CPAs, INC., in accordance with the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

As requested, we have attached an update of our comments submitted with the audit report. If you have any questions, please call Mr. Douglas Okai at (808) 586-4879.

Sincerely,

Lillian B. Koller
Director

Attachment

State of Hawaii
 Department of Human Services
 Updated Comments to Audit Recommendations
 For the Fiscal Year Ended June 30, 2008

Page(s)	Resolution Agency	Recommendation	Updated Comments
56, 63-64	HHS/DSPPIAR	2008-1. Revised Federal Award Reimbursement Process. This is a material weakness. We recommend procedures be strengthened to ensure Federal grant drawn downs are periodically reconciled to the general ledger.	The MQD continues to work to better reconcile the quarterly federal reports and the amounts recorded in the state's financial records. A written process has been developed and is undergoing final review. The MQD will use this process to monitor and approve timely reviews of the quarterly reconciliations. The MQD will also carefully calculate accurate general fund reclassifications and complete financial reports and adjustments prior to any lapses, to avoid overdraw of federal funds.
65, 81	HHS/DSPPIAR	2008-02, 2007-1. Report All Federal Programs. This is a repeat finding. We recommend procedures be strengthened to ensure the SEFA is accurate.	The corrective action plan has been implemented. This finding no longer appears in the FYE 6/30/09 Single Audit Report.
66, 81	HHS/DSPPIAR	2008-03, 2007-03. Properly Record All Capital Assets. This is a repeat finding. We recommend procedures be strengthened to ensure property records are updated timely and are accurately maintained.	The corrective actions continue to be ongoing.
67, 82	HHS/DSPPIAR	2008-04, 2007-04. Maintain Vacation and Sick Leave Records Properly. This is a repeat finding. We recommend procedures be strengthened to ensure the compensated liability schedule is accurately maintained.	To improve the accuracy of the summary leave schedule, the Department's Pre-Audit Staff will be increasing the random reviews to approximately 20% of the over 1,600 employee records. Established procedures require that the employee review the information needed for the summary leave schedule. In addition, the appropriate supervisor is required to review and sign the worksheet to validate its accuracy.
68	HHS/CMS	2008-05. Maintain Procurement Files Properly. We recommend procedures be strengthened to ensure all required procurement documents are properly maintained.	The corrective action plan has been implemented. This finding no longer appears in the FYE 6/30/09 Single Audit Report.

State of Hawaii
 Department of Human Services
 Updated Comments to Audit Recommendations
 For the Fiscal Year Ended June 30, 2008

Page(s)	Resolution Agency	Recommendation	Updated Comments
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59, 60, 69-73, 83	HHS/CMS	2008-06, 2007-05. Improve Controls Over Utilization, Fraud and Accuracy of Medicaid Claims. This is an instance of material noncompliance, a material weakness and a repeat finding. We recommend procedures be implemented to ensure 1) a post payment review process reviewing recipient eligibility be performed and 2) fraudulent activity be identified, investigated and referred to the Medicaid Fraud Unit.	The MQD acknowledges the need to improve its controls over utilization, fraud and accuracy of Medicaid claims by increasing back-end activities. The Surveillance and Utilization Review (SURS) nurses have been working with a new Data Storage Warehouse recently developed that is now in the testing stage. Once testing is completed, the MQD will be able to produce its own reports. In addition, the MQD is part of a Request for Proposals (RFP) procurement recently released by the State of Arizona's Medicaid program (AHCCCS) to obtain a SURS subsystem for use with the Data Storage Warehouse. This subsystem will enable the MQD to use pre-set algorithms to obtain reports to further improve our surveillance, utilization and fraud detection efforts.
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The SURS nurses have also established improved communications with the Office of the Attorney General's Medicaid Fraud Unit and attend monthly working meetings to discuss potential fraud cases. This re-established 'team effort' will benefit the MQD's efforts in fraud and abuse investigations.

Please note that this finding pertains to the MQD fee-for-service program which now covers only about 1% of all MQD recipients. About 99% of all MQD recipients are enrolled in managed care health plans. MQD contractually requires these health plans to prevent fraud and abuse.

59, 60, 74, 83	HHS/CMS	2008-07, 2007-06. Timely Completion of Eligibility Applications and Reverifications. This is an instance of material noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure eligibility determinations and reverifications are performed in timely manner.	The MQD's Eligibility Branch is exploring new methods of managing the increased demand for medical assistance created by the current economic downturn. Previous efforts to address this audit finding led to a 12.3% increase in efficiency in 2009 over 2008. However, since the first six months in 2008 through the last six months of 2009, there has been a 30.2% increase in the volume of applications received at MQD.
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Additional improvements are being pursued to address the backlog and then to sustain the improvement. Effective April 29, 2010, a Backlog Reduction Initiative has been put in place. While this initiative addresses the current backlog, MQD Administration is reworking its procedures to emphasize the use of a new front-end web-based application which will allow the public to apply for Medicaid on-line, provide more sophisticated electronic guidance to Eligibility Workers as they determine eligibility, and provide enhanced tracking of the status of applications and eligibility redeterminations. Additionally, MQD is exploring different procedures for assigning and tracking cases that will increase productivity. To achieve this efficiency, the telephone system is

State of Hawaii
 Department of Human Services
 Updated Comments to Audit Recommendations
 For the Fiscal Year Ended June 30, 2008

Page(s)	Resolution Agency	Recommendation	Updated Comments
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being reconfigured State-wide and case records will be managed electronically.

59, 60, 75, 84	HHS/CMS	<p>2008-08, 2007-08. Monitor the Medicaid Drug Rebate Program. This is an instance of material noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure 1) drug rebate balances are collected in a timely manner and 2) adequate oversight over the drug rebate process.</p> <p>The MQD acknowledges the problems cited in this finding resulting from its previous fiscal agent contractor (HMSA) implementing the initial drug rebate program during the period 1991 – 2001. Significant efforts have been made to seek drug manufacturers' input and corrections to the questionable accounts receivable ledgers by mailing out 92 letters to drug companies with accounts receivables listed at more than \$1,500. One payment of \$2,509.79 was received, and all other responses were used to update our records. Our pharmacy consultant also reviewed documentation to determine if these drugs appear to be properly dispensed in the units and quantities listed on our receivables reports. Adjustments were made to apparent erroneous unit calculations. A final report has been submitted to the CMS in February 2010 and is currently under review.</p>	
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The MQD has established a written policy and procedures to ensure the accurate preparation of Form CMS 64.9R conforming to CMS requirements to properly report drug rebates.

59, 60, 76, 84	HHS/CMS	<p>2008-09, 2007-09. Medicaid File Maintenance. This is an instance of material noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure participant files are 1) complete and 2) properly maintained.</p> <p>The corrective action plan has been implemented. This finding no longer appears in the FYE 6/30/09 Single Audit Report.</p>	
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59, 60 77, 84	HHS/CMS	<p>2008-10, 2007-10. Medicaid Provider Documentation. This is an instance of material noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure signed provider agreements and other required documentation are obtained and maintained.</p> <p>The corrective action plan has been implemented. This finding no longer appears in the FYE 6/30/09 Single Audit Report.</p>	
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State of Hawaii
 Department of Human Services
 Updated Comments to Audit Recommendations
 For the Fiscal Year Ended June 30, 2008

Page(s)	Resolution Agency	Recommendation	Updated Comments
59, 60, 78, 84	HHS/ACF	<p>2008-11, 2007-07. Child Care File Maintenance. This is an instance of material noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure 1) benefit payments are allowable and 2) case files are properly maintained.</p>	<p>We have discussed this issue with our Staff Development Office which is responsible to provide training to all staff who issue child care payments. They will continue to emphasize the need to maintain appropriate documentation in the case record.</p> <p>Random cases are now reviewed monthly to determine that payments issued were properly authorized. DHS will continue this practice as it has been helpful in determining on-going training needs as well as worker performance.</p>
59, 60, 79, 85	HHS/ACF	<p>2008-12, 2007-13. Accuracy of Child Care Reimbursements. This is an instance of material noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure reimbursements for child care program participants are allowable.</p>	<p>Random cases are now reviewed monthly to determine that correct payments were issued. DHS will continue this practice as it has been helpful in determining on-going training needs as well as worker performance.</p>