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HENRY OLIVA
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STATE OF HAWAII
DEPARTMENT OF HUMAN SERVICES
P. O. Box 339
Honolulu, Hawaii 96809-0339

July 27, 2010

Refer to: 10:0516

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 June 11, 2010, issued under CIN A-09-10-13579, 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, 2009. 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,

A handwritten signature in blue ink, appearing to read "Lillian B. Koller". The signature is stylized and cursive.

Lillian B. Koller
Director

Attachment

State of Hawaii
 Department of Human Services
 Updated Comments to Audit Recommendations
 For the Fiscal Year Ended June 30, 2009

Page(s)	Resolution Agency	Recommendation	Updated Comments
56, 63-64, 78	HHS/DSPPIAR	2009-01, 2008-1. Reconcile Federal Award Drawdowns. This is a material weakness and a repeat finding. We recommend procedures be strengthened to ensure Federal grant drawdowns are reconciled with the amounts recorded in the financial records and any discrepancies are investigated and resolved in a timely manner.	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 overdraft of federal funds.
65, 78	HHS/DSPPIAR	2009-02, 2008-03. Properly Record All Capital Assets. This is a repeat finding. We recommend procedures be strengthened to ensure property records are accurate.	The previous comments and corrective action plan remain unchanged. The corrective actions continue to be ongoing.
66		2009-03, 2008-04. Compile Vacation and Sick Leave Records Properly. Appropriate corrective action should be taken by the Department, as recommended by the auditors. This action could involve necessary financial adjustments to Federal program accounts and reports.	The previous comments and corrective action plan remain unchanged. The corrective actions continue to be ongoing.
67	HHS/DSPPIAR	2009-04. Reconcile EBT Benefits Available and Cash Balance. We recommend procedures be strengthened to ensure EBT benefits are reconciled to bank balances and any discrepancies are investigated and resolved in a timely manner.	The reconciliation is being done on a timely basis.
59-60, 68-72, 80	HHS/CMS	ARRA 2009-05, 2008-06. Improve Controls Over Utilization, Fraud and Accuracy of Medicaid Claims. This is a material instance of 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, 2) only allowable costs are charged to Federal programs and 3) fraudulent activities are identified, investigated and referred to the Medicaid Fraud Control Unit.	The DHS MQD is in concurrence with the findings and recommendations. 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

State of Hawaii
 Department of Human Services
 Updated Comments to Audit Recommendations
 For the Fiscal Year Ended June 30, 2009

Page(s)	Resolution Agency	Recommendation	Updated Comments
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59-60,
73, 80

HHS/CMS

ARRA 2009-06, 2008-07. Timely Completion of Eligibility Applications and Reverifications. This is a material instance of noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure eligibility determinations are performed in a timely manner.

detection efforts.

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 with the implementation of the QUEST Expanded Access (QExA) program for the Aged Blind and Disabled population started in February 2009. MQD contractually requires the QUEST and QExA health plans to prevent fraud and abuse.

The DHS MQD is in concurrence with the findings and recommendations. The MQD's Eligibility Branch is exploring new methods of managing the increased demand for medical assistance created by the recent 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. This trend in increased applications has been reversed in the first four months of 2010. There is a 26% decrease in applications compared with the last six months of 2009 and a 4% decrease compared to the first 6 months of 2008.

Additional improvements are being pursued to address the backlog and then to sustain the improvement. Effective April 29, 2010, a Backlog Reduction Initiative was put in place and has been completed. We have also developed a dedicated new application unit. In addition, the MQD Administration is exploring 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.

State of Hawaii
 Department of Human Services
 Updated Comments to Audit Recommendations
 For the Fiscal Year Ended June 30, 2009

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59-60, 74-75, 81	HHS/CMS	ARRA 2009-07, 2008-08. Medicaid Drug Rebate Program. This is a material instance of 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>The DHS MQD is in concurrence with the findings and recommendations. The MQD acknowledges the problems cited in this finding resulting from its previous fiscal agent contractor (HMSA) who implemented 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> <p>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.</p>
59-60, 75, 81	HHS/ACF	ARRA 2009-08, 2008-11. Child Care Case Files Documentation. This is a material instance of noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure accurate 1) eligibility determinations and 2) child care payment calculations.	The previous comments and corrective action plan remain unchanged. The corrective actions continue to be ongoing.
59-60, 76, 82	HHS/ACF	ARRA 2009-09, 2008-12. Accuracy of Child Care Reimbursements. This is a material instance of noncompliance, a material weakness and a repeat finding. We recommend procedures be strengthened to ensure reimbursements for child care program participants are allowable.	The previous comments and corrective action plan remain unchanged. The corrective actions continue to be ongoing.