

**AGENCY FOR HEALTH CARE
ADMINISTRATION**

PRIOR AUDIT FOLLOW-UP

Operational Audit



SECRETARY OF THE AGENCY FOR HEALTH CARE ADMINISTRATION

The Agency for Health Care Administration is created by Section 20.42, Florida Statutes. The head of the Agency is the Secretary who is appointed by the Governor, subject to confirmation by the Senate. During the period of our audit, the following individuals served as Secretary:

Elizabeth Dudek From August 2010

Tom Arnold From October 2009 to August 2010

The audit team leader was Jacqueline Joyner, CPA. Please address inquiries regarding this report to Jane Flowers, CPA, Audit Manager, by e-mail at janeflowers@aud.state.fl.us or by telephone at (850) 412-2757.

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AGENCY FOR HEALTH CARE ADMINISTRATION

Prior Audit Follow-up

SUMMARY

This operational audit of the Agency for Health Care Administration (Agency) focused on the status of Agency actions taken to correct the findings included in our reports No. 2010-139, *Medicaid Payments and Related Controls*; No. 2010-189, *Medicaid Facility Reimbursement Rates*; and No. 2011-002, *Prior Audit Follow-Up*. Our audit procedures disclosed that, while the Agency had taken many corrective actions, improvements were still needed in some areas.

MEDICAID FACILITY REIMBURSEMENT RATES

Finding No. 1: The Agency's instructions for the calculation of Medicaid reimbursement rates for hospitals were not up-to-date. Additionally, the Agency did not always document a second-person review of the manual profile sheets used in the calculation of Medicaid reimbursement rates for intermediate care facilities for the developmentally disabled (ICF-DD).

Finding No. 2: The Agency did not always enter reimbursement rates into the Florida Medicaid Management Information System (FMMIS) prior to the effective date of the rates and, as a result, did not always reimburse claims at the correct rates.

Finding No. 3: The Agency did not always calculate and timely process facility reimbursement rate changes resulting from cost report audit adjustments.

CONTRACT PROCUREMENT AND MANAGEMENT

Finding No. 4: The Agency should continue efforts to enhance policies and procedures to ensure that there are no conflicts of interest for employees involved in the contract procurement and management processes.

Finding No. 5: Contract Monitoring Plans did not always include all the information required by the Agency's *Contract Monitoring Plan Form Instructions*. In addition, Contract Monitoring Plan Forms were not always appropriately signed and dated when prepared and approved.

MEDICAID NON-EMERGENCY TRANSPORTATION (NET) PROGRAM SERVICES

Finding No. 6: The Agency should ensure that sufficient information is obtained and maintained to document that administrative fees paid related to NET Program services were reasonable and did not result in a profit between State agencies.

TANGIBLE PERSONAL PROPERTY ADMINISTRATION

Finding No. 7: The Agency needs to update its *Property Manual* and continue efforts to improve the timeliness of the tangible personal property physical inventory and related reconciliation process.

Finding No. 8: The Agency did not always timely and accurately update tangible personal property records for property acquisitions and transfers.

BACKGROUND

The Agency for Health Care Administration (Agency) is the chief health policy and planning entity for the State. The Agency is responsible for administration of the Medicaid Program, which is a Federally subsidized program that provides medical assistance to certain low-income persons. The Agency is also responsible for State health facility licensure, inspection and regulatory enforcement; investigation of consumer complaints related to health care facilities

and managed care plans; the certification of health maintenance organizations (HMOs); and other duties as prescribed by State law.¹

FINDINGS AND RECOMMENDATIONS

Medicaid Facility Reimbursement Rates

State Law² and the Medicaid State Plan provide for the reimbursement of Medicaid Program services provided by various facilities including, hospitals, nursing homes, intermediate care facilities for the developmentally disabled (ICF-DD), rural health clinics, hospices, and Federally qualified health centers (FQHCs). The amounts paid are to be based upon audited cost reports relating to each facility. The Agency established processes to collect from each facility the information needed for the calculation of the applicable reimbursement per diem rate. These processes generally included the submission of annual cost reports by the facility, Agency review of the cost reports, and Agency calculation of the per diem rates. The Agency contracted with entities to then audit the cost reports, determine the fairness of the reported information, and identify any necessary adjustments to the amounts paid as a result of rate recalculations based on audited information.

As shown in Table 1, during the period July 2010 through February 2012, facilities were paid approximately \$16.9 billion from Medicaid Program funds.

Table 1

**Medicaid Payments to Facilities by Type
July 2010 Through February 2012**

Facility Type	Payment Amounts
Hospital	\$ 9,182,658,008
Nursing Home	6,391,806,012
ICF-DD	599,243,203
Hospice	550,239,805
FQHC	155,600,754
Rural Health Clinic	57,808,516
Total	<u>\$16,937,356,298</u>

Source: Medicaid Decision Support System.³

In our report No. 2010-189, we disclosed deficiencies in the Agency’s facility reimbursement rate calculations and adjustments. Our procedures to evaluate corrective actions taken by the Agency disclosed, as discussed in finding Nos. 1, 2, and 3, that deficiencies in Agency procedures continued to exist.

Finding No. 1: Reimbursement Rate Calculations

To calculate the reimbursement rates for hospitals, nursing homes, and the ICF-DD, the Agency developed cost reimbursement plans that were incorporated into the Medicaid State Plan. The cost reimbursement plans detail the types of costs to be included in the calculation of reimbursement rates, as well as the methods to be used to calculate the reimbursement rates.

¹ Section 20.42, Florida Statutes.

² Section 409.908, Florida Statutes.

³ The Medicaid Decision Support System (DSS) is a data warehouse that provides authorized users with access to Florida Medicaid Management Information System (FMMIS) data.

The Agency had also developed detailed written instructions for the calculation of hospital and ICF-DD reimbursement rates. Those instructions indicated which amounts should be included in the reimbursement rate calculations and where to find the amounts in the facility cost reports. The instructions specified the cost report schedule, line, or column that included the applicable amounts and also described the necessary computations. Agency staff were to use the instructions to prepare, from the facility cost reports, manual profile sheets. Data from the manual profile sheets was to be entered into the appropriate rate calculation system which would then calculate the reimbursement per diem rate.

In our report No. 2010-189, we disclosed instances in which Medicaid reimbursement rates for hospitals and the ICF-DD were not calculated in accordance with established written procedures and that review of the manual profile sheets by a second person was not always documented. We recommended that the Agency ensure that rates are calculated in accordance with established policy, enhance controls to ensure that calculations are performed correctly based on complete facility cost reports, and ensure that all manual profile sheets are reviewed by a second person to verify that reimbursement rates were calculated using accurate information.

As part of our follow-up procedures, we tested documentation related to ten rate calculations (five hospital per diem rates and five ICF-DD per diem rates) performed by Agency staff and identified instances in which hospital and ICF-DD reimbursement rates were not calculated in accordance with the applicable instructions or the applicable manual profile sheets did not contain evidence of a second-person review. Specifically:

- For four of the five hospital per diem rates we tested, ranging from \$118.70 to \$1,100, we noted instances in which the calculations used to determine the rates were not performed in accordance with Agency instructions. Had the rates been calculated in accordance with the instructions, a different hospital reimbursement rate likely would have been calculated. According to Agency staff, the per diem rates were not calculated in accordance with Agency instructions as the instructions were outdated. We noted that the instructions had not been updated since 2002 and did not address all the cost report schedule line items and cost computations that had been used in the calculation of the per diem rates we tested.
- Although prepared in accordance with Agency instructions, the manual profile sheets for all five of the ICF-DD per diem rates we tested, ranging from \$8,454.86 to \$14,715, did not contain evidence of review by a second person.

The accurate calculation of Medicaid facility reimbursement rates is imperative for proper payment to participating facilities and the appropriate use of Federal and State funds. Considering the significant amount of funds paid to these facilities, reliable instructions for rate calculations and a thorough documented review of the calculations performed would provide the Agency with additional assurance that facilities are being reimbursed at correct rates.

Recommendation: We recommend that the Agency ensure that manual profile sheets evidence review by a second person. In addition, the Agency should ensure that the instructions to be used in the calculation of reimbursement per diem rates are reliable and up-to-date.

Finding No. 2: Rates Not Timely Entered Into FMMIS

In our report No. 2010-189, we noted that new and adjusted rates were not always timely entered into the Florida Medicaid Management Information System (FMMIS) for hospitals, hospices, rural health clinics, and FQHCs, resulting in claims being reimbursed to providers at previous rates. We recommended that the Agency enhance controls to ensure that reimbursement rates are entered into FMMIS prior to the rates' effective dates.

Reimbursement rates for hospitals and hospices are to be set twice each year, on January 1 and July 1. Rural health clinics and FQHCs are to receive reimbursement at rates adjusted for inflation effective each October 1. Once new

or adjusted reimbursement rates have been calculated, the rates are to be entered into FMMIS so that claims submitted for payment will be paid using the current rate. When new or adjusted rates were entered into FMMIS after the effective dates, the Agency's practice was to retroactively adjust any claims already paid at a previous rate.

As part of our follow-up procedures, we reviewed the reimbursement rates for five hospitals, five hospices, five rural health clinics, and five FQHCs and noted that the Agency did not always timely enter adjusted rates into FMMIS or retroactively adjust applicable claims. Specifically, we found that the Agency had entered the adjusted rates for three rural health clinics and five FQHCs after the rates' effective dates. For example, Medicaid claims that should have been paid at the rural health clinic rate effective October 1, 2010, were incorrectly paid at the previous rate until October 21, 2010, and the Agency did not retroactively adjust the rural health clinic claims for which the incorrect rates were applied until October 3, 2012, subsequent to our audit inquiry. Although claims were initially paid at previous rates for the rates tested for the five FQHCs, the Agency later retroactively adjusted the claims for the correct rates.

Absent timely entry of new and adjusted reimbursement rates into FMMIS, certain claims submitted by Medicaid providers may be reimbursed at incorrect rates and retroactive adjustments may not be made.

Recommendation: We again recommend that the Agency enhance controls to ensure that new and adjusted reimbursement rates are entered into FMMIS prior to the rates' effective dates.

Finding No. 3: Cost Report Audit Adjustments

The Agency contracted with First Coast Service Options, Inc. (FCSO) to perform hospital cost report audits and engaged independent certified public accountant (CPA) firms to conduct nursing home and ICF-DD cost report audits. The Agency reviewed the FCSO hospital cost report audits for acceptability and calculated any necessary changes to the cost rates. If applicable, the adjusted cost rate was entered into FMMIS and retroactively applied to previous claims. Similarly, after reviewing the nursing home and ICF-DD audit reports submitted by the CPA firms, the Agency released the reports and new rates were calculated, entered into FMMIS, and retroactively applied to applicable previous claims. In our reports on the Federal Awards audits of the Medicaid Program for the 2004-05 through 2010-11 fiscal years,⁴ as well as in our operational audit report titled *Medicaid Program Fraud Prevention and Detection Policies and Procedures Facility Cost Reports*,⁵ we have noted both the extensive length of time taken by the Agency to release audit reports submitted by the FCSO and the CPA firms and the lengthy cost report audit appeal process.

In our report No. 2010-189, we noted that facility reimbursement rate changes resulting from cost report audit adjustments were either not calculated or were calculated but not processed by the Agency. We recommended that the Agency implement procedures to ensure that new ICF-DD rates are calculated when audit reports on ICF-DD cost reports are released and enhance procedures to ensure that cost report audits procured by the Agency are timely processed and any rate changes resulting from cost report audits are timely calculated, entered into FMMIS, and retroactively applied.

⁴ Our report No. 2012-142, finding No. FA 11-072; report No. 2011-167, finding No. FA 10-068; report No. 2010-165, finding No. FA 09-064; report No. 2009-144, finding No. FA 08-061; report No. 2008-141, finding No. FA 07-062; report No. 2007-146, finding No. FA 06-066; and report No. 2006-152, finding No. FA 05-053.

⁵ Our report No. 2012-035, finding Nos. 2 and 3.

As part of our follow-up, we reviewed Agency procedures and examined documentation related to 15 cost report audits (pertaining to five nursing homes, five ICF-DD, and five hospitals) released by the Agency during the period July 2010 through February 2012, and noted that:

- The Agency had not enhanced procedures to better ensure that rate adjustments are timely calculated when cost report audits are reviewed and released.
- For 4 of the 5 nursing home cost report audits selected for testing, the Agency did not calculate reimbursement rates based on cost report audit adjustments. The 4 nursing home audits were released during the period July 2010 through October 2011, and, as of March 4, 2013, the Agency had not calculated adjusted reimbursement rates. In response to our audit inquiry, Agency staff indicated that the nursing home providers had appealed the audit adjustments and filed a petition for a formal administrative hearing. According to Agency management, should a provider choose to appeal the adjustments, all further processing of the cost report, including any rate changes, is suspended until administrative action is legally concluded. We noted that, on average, approximately 3 years elapsed from the date the Agency released the cost report audit to the date the appeal was finalized.
- The Agency did not calculate reimbursement rates based on cost report audit adjustments for any of the 5 ICF-DD cost report audits selected for testing. All 5 ICF-DD audits were released on September 21, 2011, and, as of June 11, 2012, (264 days later) adjusted reimbursement rates had not been calculated. In response to our audit inquiry regarding the delays, Agency staff cited a heavy workload and indicated that the review process for the ICF-DD began on June 5, 2012. Subsequently, we noted that by October 1, 2012, the rates had been calculated and entered into FMMIS and the previous claims adjusted.

We also followed up on nine ICF-DD and four hospital cost report audits for which, as noted in our report No. 2010-189, finding No. 6, the Agency had not calculated rate adjustments or retroactively adjusted claims paid at the previous rates. Our follow-up procedures disclosed that, since our last audit:

- The Agency had calculated rate adjustments for the nine ICF-DD. However, the Agency had only entered rate adjustments into FMMIS for seven of the nine ICF-DD and the Agency had not adjusted any of the nine facilities' previous claims for the new rates.
- For two of the four hospitals, the Agency had not adjusted previous claims for the new rates. For one hospital, the rate adjustment was entered in FMMIS, but the rate adjustment was not retroactively applied to previous claims. Subsequent to our audit inquiry, a payment for the net effect of the rate change was issued to the hospital. The Agency had not entered the adjusted rate into FMMIS for the second hospital and, in response to our audit inquiry, Agency staff indicated that the hospital cost report audit was still pending review by Agency staff.

Failure to timely calculate reimbursement rates increases the likelihood that overpayments or underpayments to providers will occur and not be timely corrected. Additionally, expenditure information recorded in the State's accounting records and included in required Federal reports may be incorrect and not subject to timely adjustment.

Recommendation: To ensure that improper reimbursement rates are timely identified and corrected, we again recommend that the Agency calculate reimbursement rates when cost report audits are reviewed and released. Additionally, we recommend that the Agency strengthen policies and procedures to ensure that rate adjustments are timely calculated, entered into FMMIS, and retroactively applied.

Procurement and Contract Management

In connection with the conduct of Agency functions and activities, as of February 2012, the Agency managed 125 active contracts with obligations totaling approximately \$14 billion. The Agency's Procurement Office was responsible for developing, maintaining, and disseminating Agency policies, procedures, and guidelines governing

procurement activities. The Procurement Office was also responsible for monitoring the implementation of procurement policies and procedures throughout the Agency.

To provide guidance for the procurement of goods and services and contract management, the Agency established a *Procurement Manual*⁶ that included instructions for contract management and contract file reviews and enumerated contract manager responsibilities. Pursuant to the *Procurement Manual*, contract manager responsibilities included developing and implementing a contract monitoring plan; ensuring vendor adherence to the contract schedule; receiving and approving required reports and other deliverables; auditing invoices; maintaining accurate records regarding contract balances; and notifying the Procurement Office, in writing, of changes in contract management or problems or potential problems encountered with the contract.

In our report No. 2011-002, we noted issues related to the Agency's contract management activities. As described in finding Nos. 4 and 5, our follow-up procedures disclosed that some areas of the procurement and contract management processes still needed improvement.

Finding No. 4: Procedures to Detect a Conflict of Interest

State law⁷ addresses the importance of State employees being free of conflicts of interest with respect to the procurement and management of contractual services. In our report No. 2011-002, we recommended that the Agency's written policies be revised to clearly reflect the specific requirements for the completion of the Agency's conflict of interests (COI) questionnaires. In the Agency's 6-month status of corrective actions report, Agency staff indicated that COI questionnaires were now required of every individual involved in the procurement and contract management processes.

As part of our follow-up, we tested documentation for ten Agency contracts entered into during the period January 2011 through December 2011 and six purchase orders entered into during the period July 2010 through December 2011 to determine whether COI questionnaires were prepared in accordance with the new policy. The total obligations relating to these ten contracts totaled approximately \$177 million and the purchases represented by the six purchase orders totaled \$452,574. We noted that, for the ten contracts, the required COI questionnaires had been prepared by appropriate Agency staff involved in the procurement and contract management processes. However, we also found that, for two purchase orders with obligations of \$40,000 and \$85,000, respectively, a COI questionnaire had not been prepared by all the involved individuals. The services obtained via the second purchase order had been competitively procured. The Agency's contract initiation form requires a COI questionnaire for single source and exempt procurement methods, but does not require a COI questionnaire for the competitive procurement process.

While State procurement law⁸ does not require written attestations of independence for those involved in the award of contracts using competitive means, such attestations (e.g., COI questionnaires) would help ensure and demonstrate compliance with the statutorily required standards of conduct for State agency employees.⁹ In addition, independence attestations by all those involved in the procurement and contract management processes would provide assurances regarding the fairness and objectivity of those processes.

⁶ Agency Policy No. 4006, *Procurement of Goods and Services*.

⁷ Sections 112.313(3) and (7)(a), Florida Statutes.

⁸ Section 287.057(19), Florida Statutes.

⁹ Section 112.313, Florida Statutes.

Recommendation: The Agency should continue efforts to enhance policies and procedures by requiring that all employees involved in the procurement and contract management processes prepare COI questionnaires.

Finding No. 5: Contract Monitoring Plans

Effective contract management includes the monitoring of contractor performance to verify compliance with contractual provisions and provides a means for early detection of potential performance problems. The preparation and supervisory approval of monitoring plans assist Agency management in verifying that contract monitoring efforts are complete in terms of the risks and issues addressed. In addition, the Agency's *Procurement Manual*¹⁰ requires the Procurement Office to perform an annual review of each contract manager's files to verify that the contract manager adhered to the monitoring plan. The contract monitoring plan provides the Procurement Office with a basis for measuring contract manager compliance with Agency contract monitoring controls.

In our report No. 2011-002, we recommended that the Agency enhance its policies and procedures to ensure that a monitoring plan is developed and approved during contract scope development as required by the Agency's *Procurement Manual*. We also recommended that the Agency consider revising the monitoring plan format to include a provision for documenting the date the plan was prepared and approved.

As part of our follow-up, we reviewed Agency contract monitoring procedures and forms, as well as the files for ten contracts entered into during the period January 2011 through December 2011 and representing obligations totaling approximately \$177 million. We discovered that:

- The Agency did not update the Contract Monitoring Plan Form to include the date the Form was prepared and approved until April 2012, subsequent to our audit inquiry. The monitoring plans for nine contracts did not include the dates the plans were completed and approved and one monitoring plan did not include the supervisor's signature demonstrating review.
- The monitoring plan for one contract was not prepared and approved during contract scope development as the plan was signed 11 days after the contract's effective date.
- Two of the ten contract monitoring plans did not include all the information required by the Contract Monitoring Plan Form Instructions. Specifically, these two plans did not include a summary of the items or deliverables to be monitored or a summary plan of action to be followed should the monitoring reveal deficiencies.

Absent adequate supervisory review, the monitoring plans may not include all the information required by the Contract Monitoring Plan Form Instructions and, absent documentation of the preparation and approval dates, the Agency cannot demonstrate that the plans were prepared and approved during contract scope development.

Recommendation: The Agency should continue efforts to ensure that all Contract Monitoring Plans specify the items or deliverables to be monitored and include a summary plan of action should deficiencies be noted during monitoring. The Agency should also ensure that all Contract Monitoring Plan Forms are signed and dated when prepared and approved.

¹⁰ Agency Policy No. 4006, *Procurement of Goods and Services*.

Medicaid Non-Emergency Transportation Program Services

The Agency’s Medicaid Non-Emergency Transportation Services (NET) Program provides transportation to nonemergency medical appointments for Medicaid recipients who have no other means of transportation. The NET Program does not include ambulance transportation or transportation for recipients who are enrolled in a Health Maintenance Organization (HMO) that provides transportation within its scope of services.

As authorized by State law,¹¹ the Commission for the Transportation Disadvantaged (CTD) has created a coordinated transportation system for the transportation disadvantaged. State law¹² provides that agencies shall purchase transportation services through the coordinated transportation system unless exempted by rule or statute. The Agency entered into a fixed-fee contract with the CTD to manage the NET Program and the CTD subcontracted with county providers for the provision of NET Program services. The county providers include both governmental entities and private entities and are referred to as subcontracted transportation providers (STPs). During the period July 2010 through February 2012, expenditures related to the contract between the Agency and the CTD totaled approximately \$106 million. Table 2 provides a summary of the compensation authorized by the contract, as amended, for the period September 2009 through August 2012.

**Table 2
CTD NET Program Contract Summary**

Time Period	Cumulative Contract Limit	Monthly Fixed Fee
09/01/2009 – 08/31/2010	\$114,483,919 ^a	\$5,451,615
09/01/2010 – 08/31/2011	\$179,903,300 ^b	\$5,451,615
07/01/2011 – 08/31/2011	\$179,140,074 ^c	\$5,070,002 ^c
09/01/2011 – 08/31/2012	\$239,980,099 ^d	\$5,070,002

- ^a Amendment signed in October 2009 increased the cumulative contract limit from \$49,064,537 to \$114,483,919.
- ^b Amendment effective September 2010 increased the cumulative contract limit.
- ^c Amendment effective July 2011 decreased the cumulative contract limit and the monthly fixed fee.
- ^d Amendment signed in August 2011, exercised the first renewal option of the agreement and increased the cumulative contract limit.

Source: Agency contract files.

Finding No. 6: NET Program Contract Cost Management

Federal regulations¹³ require that costs be reasonable and adequately documented and prohibit a profit between State entities.¹⁴ In our report No. 2011-002, we recommended that the Agency retain documentation to demonstrate that NET Program contract rates are reasonable and do not result in a profit between State agencies. We also

¹¹ Sections 427.012 and 427.013, Florida Statutes. The CTD is administratively housed within the Department of Transportation and Commission members are appointed by the Governor and are subject to Senate confirmation.

¹² Section 427.0135, Florida Statutes.

¹³ Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.

¹⁴ OMB Circular A-87, Attachment A, Section G, states that the cost of services provided by one agency to another within the governmental unit may include allowable direct costs of the service plus a pro rate share of indirect costs.

recommended that the Agency consider a contract amendment that would limit administrative costs to those directly related to the Medicaid NET Program.

As part of our follow-up procedures, we inquired of Agency management and reviewed contract file documentation and found that the Agency had amended the contract's administrative fees limit to 5 percent of the monthly payment and required that any part of the 5 percent not used by the CTD be returned to the Agency. However, we also found that the Agency had not verified that administrative costs were reasonable and limited to only allowable costs and did not result in a profit between State agencies.

Specifically, although we requested documentation of Agency-performed comparisons of the total amount paid to the CTD to the total amount expended by the CTD and reviews of related administrative costs incurred, the Agency only provided records of Agency payments made to the CTD and an incomplete set of quarterly financial reports submitted by the CTD. The Net Program contract requires the CTD to submit quarterly financial reports that detail the total amount paid to each STP during the quarter. The Agency did not provide any documentation to demonstrate that cost comparisons had been performed or that CTD administrative fees were reviewed to verify that NET Program contract rates were reasonable and did not result in a profit between State agencies.

Recommendation: We recommend that the Agency monitor CTD administrative costs and maintain documentation to demonstrate that the NET Program contract rates are reasonable and do not result in a profit between State agencies.

Tangible Personal Property Administration

In our report No. 2011-002, we noted issues related to the Agency's administrative activities, including its administration of tangible personal property (TPP). As discussed in finding Nos. 7 and 8, our follow-up procedures disclosed that improvements were still needed in the Agency's TPP inventory procedures and property records.

Finding No. 7: Tangible Personal Property Inventory Procedures

State law¹⁵ defines property as equipment, fixtures, and other tangible personal property (TPP) of a nonconsumable and nonexpendable nature and gives the Department of Financial Services (DFS) the authority to establish, by rule, the requirements for recording property in the State's financial records and for the periodic review of property for inventory purposes. The DFS established such rules¹⁶ and, to promote the safeguard of its TPP, the Agency established a *Property Management and Control Manual (Property Manual)*,¹⁷ which was revised August 2010. According to Agency property records, as of April 30, 2012, the acquisition costs of the Agency's 1,678 items of TPP totaled approximately \$6.2 million.

DFS Rules¹⁸ require that each custodian ensure that a complete physical inventory of all property is taken at least once each fiscal year and, upon completion of a physical inventory, the data listed on the inventory forms be compared with the individual property records. Noted differences such as location, condition, and custodian's delegate are to be investigated and corrected as appropriate. The Agency's *Property Manual* requires that, when property is physically transferred between custodians, organizational levels, or agencies, a property transfer form be utilized to document the transfer and receipt of the property.

¹⁵ Section 273.02, Florida Statutes.

¹⁶ DFS Rules, Chapter 69I-72, Florida Administrative Code.

¹⁷ Agency Policy No. 4007, *Property Management and Control Manual*.

¹⁸ DFS Rule 69I-72.006(1) & (6)(a), Florida Administrative Code.

In our report No. 2011-002, we noted that the Agency's reconciliation of the data listed on the inventory forms to the property records was not always timely performed. As part of our follow-up procedures, we reviewed the Agency's property records and reports related to the 2011-12 fiscal year physical inventory for 3 of the Agency's 70 organizational units and also reviewed documentation related to items marked as not counted or transferred to determine whether the Agency had timely and properly performed and documented the physical inventory and related reconciliation process, including the investigation and correction of any discrepancies. These 3 organizational units' inventory reports included 663 property items. Our review of the inventory reports and Agency property records disclosed that:

- As of February 29, 2012, inventory dates had not been recorded in the property records for a total of 187 items. DFS Rules¹⁹ require that each property record include the date the item was last physically inventoried.
- The Agency began its 2011-12 fiscal year inventory in October 2011. For 1 of the organizational units tested with 610 assigned property items:
 - The 2011-12 fiscal year inventory was not completed until March 13, 2012, or approximately 5 months after the inventory began.
 - Transfer forms were not completed for 22 property items that had been transferred to different organizational units. Subsequent to our audit inquiry, the transfer forms were completed.
 - During the 2011-12 fiscal year inventory, the status for 3 items was inappropriately identified in the property records as active. Specifically, 2 items noted as trade-ins and an item that had been surplus were classified in the property records as active. Subsequent to our audit inquiry, the property records were updated to show the correct status of these items.
 - One item marked as not counted during the 2011-12 fiscal year inventory had been noted as surplus in the 2010-11 fiscal year inventory; however, the surplus form provided did not include this item. In response to our audit inquiry, Agency staff indicated that this item had been found and was inadvertently shown as surplus in the 2010-11 fiscal year property inventory records.
 - The location or description was incorrectly recorded in the property records for 4 items.

We also noted that the Agency's *Property Manual* had been updated to extend the time period for completing the reconciliation of the data listed on the inventory forms to the property records from 60 days after the completion of the inventory to the fiscal year-end. This time period does not agree with DFS Rules²⁰ which stipulate that a reconciliation shall be performed upon completion of the inventory. When physical inventories and reconciliations are not timely and properly performed, there is an increased risk that errors or misappropriations, should they occur, will not be timely detected, investigated, and resolved.

Recommendation: We recommend that the Agency update its *Property Manual* to comply with DFS Rules and continue efforts to improve the timeliness of the TPP physical inventory and related reconciliation process.

Finding No. 8: Property Recording and Inventory

During the period July 2010 through February 2012, the Agency purchased TPP with acquisition costs totaling approximately \$613,852. In our report No. 2011-002, we noted that, in some instances, property purchases were not timely and accurately recorded in Agency property records.

¹⁹ DFS Rule 69I-72.003(3)(m), Florida Administrative Code.

²⁰ DFS Rule 69I-72.006(6)(a), Florida Administrative Code.

As part of our follow-up procedures, we reviewed 22 invoices, dated January through November 2011 and including 104 property items with total acquisition costs of \$442,864, to determine whether the Agency had timely recorded the purchased items in the property records in accordance with DFS Rules.²¹ We noted that:

- The Agency had not timely updated the property records to include 36 of the 104 property items (35 percent). Delays in recording these 36 items ranged from 33 to 100 days.
- Related internal computer components with a total cost of \$21,810 were not properly recorded in the property records. Specifically:
 - The original accounting records entry incorrectly recorded the internal computer components as Land and Land Improvement rather than Furniture and Equipment. In an attempt to correct this entry, the Agency made five correcting entries to the accounting records. The multiple entries caused the total acquisition costs for these items to be \$0 in the accounting records and also resulted in the items being recorded in the property records with acquisition costs of \$0.
 - Although the Agency staff who received the items indicated that the internal computer components should be treated as one group item and assigned one property tag, four property tags were issued and the items were recorded as four separate items in the property records.
 - According to Agency staff, the items were not counted during the annual physical inventory due to the \$0 shown as the acquisition costs in the property records.

Subsequent to our audit inquiry, Agency staff deleted the incorrectly issued separate property tags, assigned one group item property tag, and corrected the acquisition cost in the Agency's property records. However, the Agency's accounting records were not corrected to properly reflect the acquisition cost of the group item.

We also selected 20 of the 104 property items for physical observation and reviewed the related property records to determine the accuracy and completeness of the records. We found that:

- For 1 of the 20 property items observed (5 percent), the property item did not have a property tag affixed. Agency staff indicated that the property item was a replacement. Agency procedures require that the Agency's Bureau of Support Services be notified when a property item is replaced so that the new property item may be assigned a property tag and the Agency's property records appropriately updated. Subsequent to our audit inquiry, the Agency assigned a new property tag for the replacement item and updated the property records.
- For 3 of the 20 property items observed (15 percent), transfer forms had not been completed and the property records had not been updated to reflect the change in the items' organizational units and locations. Subsequent to our audit inquiry, Agency property custodians completed the transfer forms and the property records were appropriately updated.

In addition to the *Property Manual*, the Agency utilizes Desktop Procedures to detail specific employee job responsibilities; however, we noted that the Agency's Desktop Procedures did not require the timely recording of property items. Delays in updating the property records for acquisitions and transfers and the incorrect recording of property values may result in the loss of accountability for Agency property, inefficient inventory processes, and inaccurate and incomplete financial reporting.

Recommendation: We recommend that the Agency continue efforts to ensure that property records are timely and accurately updated for property acquisitions and transfers.

²¹ DFS Rule 69I-72.003(2), Florida Administrative Code.

PRIOR AUDIT FOLLOW-UP

Except as discussed in the preceding paragraphs, the Agency had taken corrective actions for the findings included in our report Nos. 2010-139, 2010-189, and 2011-002.

OBJECTIVES, SCOPE, AND METHODOLOGY

The Auditor General conducts operational audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

We conducted this operational audit from January 2012 to July 2012 and performed selected procedures through March 2013 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This operational audit focused on the status of Agency actions taken to correct the findings disclosed in our report Nos. 2010-139, 2010-189, and 2011-002. The overall objectives of the audit were:

- To evaluate the effectiveness of established internal controls in achieving management's control objectives in the categories of compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To evaluate management's performance in achieving compliance with controlling laws, administrative rules, and other guidelines; the economic, efficient, and effective operation of State government; the relevance and reliability of records and reports; and the safeguarding of assets.
- To determine whether management had corrected, or was in the process of correcting, all applicable deficiencies disclosed in our report Nos. 2010-139, 2010-189, and 2011-002.
- To identify statutory and fiscal changes that may be recommended to the Legislature pursuant to Section 11.45(7)(h), Florida Statutes.

This audit was designed to identify, for those programs, activities, or functions included within the scope of the audit, deficiencies in management's internal controls, instances of noncompliance with applicable governing laws, rules, or contracts, and instances of inefficient or ineffective operational policies, procedures, or practices. The focus of this audit was to identify problems so that they may be corrected in such a way as to improve government accountability and efficiency and the stewardship of management. Professional judgment has been used in determining significance and audit risk and in selecting the particular transactions, legal compliance matters, records, and controls considered.

As described in more detail below, for those programs, activities, and functions included within the scope of our audit, our audit work included, but was not limited to, communicating to management and those charged with governance the scope, objectives, timing, overall methodology, and reporting of our audit; obtaining an understanding of the program, activity, or function; exercising professional judgment in considering significance and audit risk in the design and execution of the research, interviews, tests, analyses, and other procedures included in the audit methodology; obtaining reasonable assurance of the overall sufficiency and appropriateness of the evidence gathered in support of our audit's findings and conclusions; and reporting on the results of the audit as required by governing laws and auditing standards.

Our audit included the selection and examination of transactions and records. Unless otherwise indicated in this report, these transactions and records were not selected with the intent of statistically projecting the results, although we have presented for perspective, where practicable, information concerning relevant population value or size and quantifications relative to the items selected for examination.

An audit by its nature, does not include a review of all records and actions of agency management, staff, and vendors, and as a consequence, cannot be relied upon to identify all instances of noncompliance, fraud, abuse, or inefficiency.

Our audit included examinations of various records and transactions (as well as events and conditions) occurring during the period July 2010 through February 2012, and selected actions through March 2013. In conducting our audit, we:

- Reviewed the Agency's 6-month responses regarding the status of corrective actions for each finding in our report Nos. 2010-139, 2010-189, and 2011-002.
- Reviewed Agency records and performed an analysis related to emergency payments to determine whether the Agency had issued emergency payments based on specific claims information and in accordance with governing laws, rules, and applicable policies and procedures.
- Reviewed the Agency's Fiscal Agent Penalties/Sanctions Report for evidence of timely review and scoring of contractual performance measures and the assessment of liquidated damages for nonperformance.
- Examined an Agency Monitoring Summary report used to monitor pharmacy prescription activity and accuracy that details pharmacy claims for a 24-hour period, to determine if several metrics, such as the number of paid claims, rejected claims, denied claims, duplicate claims, and reversed claims, were included.
- Examined documentation related to five Medicaid provider claims exceeding \$25,000 to determine whether the providers had an active provider agreement in place at the time of payment.
- Reviewed Agency *Coverage and Limitation Handbooks* to determine whether the Agency had developed handbooks for the Children's Medical Services – Targeted Case Management service type.
- Reviewed five hospital and five ICF-DD reimbursement rates pertaining to claims ranging from \$78.91 to \$14,715 to determine whether rate calculations were performed accurately in accordance with Medicaid policy and applicable laws, rules, and regulations; based on the appropriate cost reports submitted by the applicable facility; and reviewed by a second person.
- Examined five hospital, five hospice, five FQHC, and five rural health clinic provider claims to determine whether reimbursement rates were entered into FMMIS prior to the rates' effective dates and, if not, whether the claims were later retroactively adjusted for the new rates.
- Reviewed five hospital, five ICF-DD, and five nursing home claims to determine whether facility cost reports, upon which the claims reimbursement rates were based, were received by the required filing due dates.
- Examined the Medicaid State Plan to determine whether the Plan had been revised to impose new punitive measures for providers submitting cost reports after the required filing due dates.
- Reviewed Agency contract monitoring activities during the period July 2010 through February 2012 related to the First Coast Services Options, Inc. contract to determine whether the level of monitoring was sufficient to verify contract compliance.
- Reviewed five nursing home, five ICF-DD, and five hospital cost report audits issued during the period July 2010 through February 2012, as well as nine ICF-DD and four hospital cost report audits included in our report No. 2010-189, finding No. 6, to determine whether adjusted rates had been calculated and whether any adjustments had been retroactively applied in FMMIS.

- Determined whether TPP purchases were timely and accurately recorded in Agency property records and evaluated the adequacy and timeliness of physical inventory procedures, including the reconciliation of inventory results, by examining selected TPP items and inventory records. Specifically, we:
 - Examined Agency records for 104 property items with acquisition costs totaling \$442,864 acquired during the period January 2011 through November 2011.
 - Observed 20 property items with acquisition costs totaling \$175,555.
 - Examined physical inventory reports for 3 of the Agency's 70 organizational units.
- Reviewed Agency policies and procedures to determine if those policies and procedures had been enhanced to better ensure there were no conflicts of interest for employees involved in the procurement and contract management processes and that monitoring plans had been developed and approved during contract scope development.
- Reviewed documentation for ten contracts entered into during the period January 2011 through December 2011 and representing obligations totaling approximately \$177 million as well as six purchase orders entered into during the period July 2010 through December 2011 for purchases totaling \$452,574, to determine whether COI questionnaires had been completed for all staff involved in the procurement and contract management processes, independence certifications were obtained at least annually from contract managers, and a signed and dated contract monitoring plan was completed prior to contract development and execution.
- Reviewed Agency records related to one of three Agency quarterly Third Party Liability (TPL) contract monitoring reports completed during the period July 2010 through February 2012 to determine if checklists had been developed and implemented and, to determine whether the monitoring process documented key compliance issues and the relative impact of any exceptions noted, reviewed the monitoring report for distinctions made for minor errors and repetitive, substantial, or significant procedural errors.
- Inquired of Agency personnel to determine whether the TPL vendor had performed required data exchanges or the Agency had obtained a waiver from the Federal government.
- Reviewed a Leads Letter Summary submitted to the Agency by the TPL vendor covering the period July 2010 through February 2012 to determine if follow-up leads letters had been determined to be cost effective and, if so, letters had been sent to beneficiaries who had submitted incomplete information. The Leads Letter Summary analyzed the volume of initial leads letters sent, the initial leads letter response rate, the volume of follow-up leads letters, the follow-up leads letter response rate, and the percentage of initial and follow-up leads letters that resulted in good leads.
- Examined the September 2011 TPL check log to determine if TPL unit receipts were timely and accurately deposited and collections were reconciled to Agency records of deposit.
- Inquired of Agency personnel to determine whether the Agency had retained documentation to ensure that NET Program contract rates were reasonable and did not result in a profit between State agencies, enhanced its contract monitoring procedures, and documented its evaluation of contractor compliance with key contract provisions.
- Reviewed the NET Program contract to determine whether the Agency had amended the contract to limit administrative costs.
- Reviewed Agency procedures related to the administration of lease bond alternative collections from certain nursing home facilities to determine if the procedure addressed the administration, management, and annual review of the financial viability of the Medicaid Nursing Home Overpayment Account and whether the account balances were sufficient to meet legal requirements.
- Examined seven Medicaid waiver billings totaling \$121 million during the period July 2010 through February 2012 to determine if invoices were prepared based on valid claims.
- Communicated on an interim basis with applicable officials to ensure the timely resolution of issues involving controls and noncompliance.

- Performed various other auditing procedures, including analytical procedures, as necessary, to accomplish the objectives of the audit.
- Prepared and submitted for management response the findings and recommendations that are included in this report and which describe the matters requiring corrective actions.

AUTHORITY

Section 11.45, Florida Statutes, requires that the Auditor General conduct an operational audit of each State agency on a periodic basis. Pursuant to the provisions of Section 11.45, Florida Statutes, I have directed that this report be prepared to present the results of our operational audit.



David W. Martin, CPA
Auditor General

MANAGEMENT'S RESPONSE

In a letter dated May 24, 2013, the Agency provided responses to our audit findings and recommendations. The Agency's response letter is included as **EXHIBIT A**.

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**EXHIBIT A
MANAGEMENT'S RESPONSE**



RICK SCOTT
GOVERNOR

Better Health Care for all Floridians

ELIZABETH DUDEK
SECRETARY

May 24, 2013

Mr. David W. Martin
G74 Claude Pepper Building
111 West Madison Street
Tallahassee, FL 32399-1450

Dear Mr. Martin:

Thank you for the opportunity to respond to the preliminary and tentative findings and recommendations from your Operational Audit of the Agency for Health Care Administration, Prior Audit Follow-up. In accordance with your request, we have emailed you the preliminary and tentative audit findings document with our response incorporated therein.

If you have any questions regarding our response, please contact Mary Beth Sheffield at 412-3978.

Sincerely,

Elizabeth Dudek
Secretary

ED/szg
Enclosure



EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Agency for Health Care Administration
AG 10-12 Operational Audit – AHCA
Prior Audit Follow-up
Response to Auditor General's P&T Audit Findings and Recommendation

Medicaid Facility Reimbursement Rates

Finding 1:

Reimbursement Rate Calculations. The Agency's instructions for the calculation of Medicaid reimbursement rates for hospitals were not up-to-date. Additionally, the Agency did not always document a second-person review of the manual profile sheets used in the calculation of Medicaid reimbursement rates for intermediate care facilities for the developmentally disabled (ICF-DD).

Recommendation:

We recommend that the Agency ensure that manual profile sheets evidence review by a second person. In addition, the Agency should ensure that the instructions to be used in the calculation of reimbursement per diem rates are reliable and up-to date.

Agency Response:

Medicaid Program Finance Unit is and has always calculated Medicaid reimbursement rates for hospitals in accordance with the approved Florida Title XIX Inpatient Hospital Reimbursement Plan, as incorporated by reference in Rule 59G-6.020, Florida Administrative Codes. This document defines the methodologies used by the Florida Medicaid Program in establishing individual hospital reimbursement rates. The instructions that were provided for the Auditor General's audit are only "in-house" instructions which are used for training new staff and are general instructions. These instructions are not promulgated as an Administrative Rule.

The Agency has and will continue to ensure that all providers' rates are calculated in accordance with State and Federal policy as outlined in the Reimbursement Plan. This includes but is not limited to reviewing all manual profile sheets. The Agency will also review the "in-house" instructions which are used for training new staff and make any updates necessary.

Manual Profile Sheets

All profile sheets are reviewed at least by a second person to ensure accuracy. When profile sheets are completed by a Regulatory Analyst (he/she signs the profile sheet), the profile sheet is reviewed by the Program Operational Administrator and the Regulatory Analyst Supervisor. The Regulatory Analyst Supervisor is the only individual which signs the rate letter, which indicates the profile sheet has been reviewed and is accurate with the current rate being correct. All 100% of the manual profile sheets that are prepared by the Regulatory Analyst are reviewed for accuracy by the Program Operational Administrator. When profile sheets are completed by the Program Operational Administrator (he/she signs the profile sheet), the profile sheet is reviewed by the Regulatory Analyst Supervisor and the rates are approved and signed. The lack of a tick mark or second initial on a profile sheet does not mean it was not reviewed by a second person.

The Program Operational Administrator and/or the Regulatory Analyst Supervisor will sign each manual profile sheet completed by the Regulatory Analyst or Program Operational Administrator to document a second-person review of the manual profile sheets used in the calculation of Medicaid reimbursement rates.

Agency Contact:

Tom Wallace
(850) 412-4117

**EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE**

**Agency for Health Care Administration
AG 10-12 Operational Audit – AHCA
Prior Audit Follow-up
Response to Auditor General's P&T Audit Findings and Recommendation**

Finding 2:

Rates Not Timely Entered Into FMMIS. The Agency did not always enter reimbursement rates into the Florida Medicaid Management Information System (FMMIS) prior to the effective date of the rates and, as a result, did not always reimburse claims at the correct rates.

Recommendation:

We again recommend that the Agency enhance controls to ensure that new and adjusted reimbursement rates are entered into FMMIS prior to the rates' effective dates.

Agency Response:

Medicaid Program Finance has and will continue to ensure that providers' rates are submitted to MCM in a timely fashion to ensure that reimbursement rates are entered into FMMIS prior to the rate effective dates. One hindrance that could prevent this from occurring is the fact that all rate calculations for all institutional provider reimbursements are reviewed by their respective industries or association prior to Medicaid Program Finance submitting the rates to Medicaid Contract Management for processing. This is a practice that has always occurred. The Agency wants the industry to review the rates and bring up any concerns they may have prior to release. This process does occur in advance of the effective date but this potentially could cause delays depending on the review. It should be noted that the industry is aware that a delay would cause the claims to be reimbursed at the old rate. Medicaid Program Finance normally gives the industries one week to review the rates. In addition, if any rates are entered into FMMIS after the effective date, this action should result in a retroactive rate adjustment. This process ensures the providers are paid at the new rates.

Agency Contact:

Tom Wallace
(850) 412-4117

Finding 3:

Cost Report Audit Adjustments. The Agency did not always calculate and timely process facility reimbursement rate changes resulting from cost report audit adjustments.

Recommendation:

To ensure that improper reimbursement rates are timely identified and corrected, we again recommend that the Agency calculate reimbursement rates when cost report audits are reviewed and released. Additionally, we recommend that the Agency strengthen policies and procedures to ensure that rate adjustments are timely calculated, entered into FMMIS, and retroactively applied.

Agency Response:**Nursing Homes**

The Agency does not complete cost report audit adjustments until all administrative action is legally concluded. This has allowed the Agency to speed up the time frame in which the audit adjustments are completed and any retroactive adjustments are calculated and recouped. By requiring a final order to be issued before retroactive adjustments are calculated, the Agency has limited the point of challenge of an audit to a single occurrence. Prior to the policy of requiring a final order before retroactive adjustments were calculated, providers challenged audits at issuance, at rate adjustment calculation, and at recoupment. The Agency has also taken steps to reduce the amount of time it takes for cost reports to be submitted by streamlining the Change of Ownership process. Previously, providers submitted all documents related to licensure at one date and then months later submitted the necessary documents for Medicaid enrollment. Now all documents related to licensure and Medicaid enrollment are requested together and the Change of Ownership process is completed sooner. This allows the Agency to collect the initial cost report and begin the audit process sooner.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Agency for Health Care Administration
AG 10-12 Operational Audit – AHCA
Prior Audit Follow-up
Response to Auditor General's P&T Audit Findings and Recommendation

Concerning the nine ICF-DDs identified in the finding that did not have their claims reprocessed at the revised rates, a system issue prevented the reprocessing of claims for certain time periods. However, CO 18065 was implemented in January 2013, and the Agency has since reprocessed the claims for the affected time period.

Agency Contact:

Tom Wallace
(850) 412-4117

Brian Meyer
(850) 412-3446

Contract Procurement and Management

Finding 4:

Procedures to Detect a Conflict of Interest. The Agency should continue efforts to enhance policies and procedures to ensure that there are no conflicts of interest for employees involved in the contract procurement and management processes.

Recommendation:

The Agency should continue efforts to enhance policies and procedures by requiring that all employees involved in the procurement and contract management processes prepare COI questionnaires.

Agency Response:

The Agency will continue to enhance its policies and procedures to ensure that there are no conflicts of interest for employees involved in the contract procurement and management processes. The Agency will ensure all individuals involved in the contracting process complete a COI questionnaire when a requisition is created for a Vendor in MyFloridaMarketPlace. The Agency will continue to utilize the Contract Initiation Form to ensure COI questionnaires are completed when new contracts are developed.

Agency Contact:

Lance Dyal
(850) 412-3895

Jennifer Barrett
(850) 412-3887

Finding 5:

Contract Monitoring Plans. Contract Monitoring Plans did not always include all the information required by the Agency's *Contract Monitoring Plan Form Instructions*. In addition, Contract Monitoring Plan Forms were not always appropriately signed and dated when prepared and approved.

Recommendation:

The Agency should continue efforts to ensure that all Contract Monitoring Plans specify the items or deliverables to be monitored and include a summary plan of action should deficiencies be noted during monitoring. The Agency should also ensure that all Contract Monitoring Plan Forms are signed and dated when prepared and approved.

**EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE**

**Agency for Health Care Administration
AG 10-12 Operational Audit – AHCA
Prior Audit Follow-up
Response to Auditor General's P&T Audit Findings and Recommendation**

Agency Response:

The Agency will ensure all Contract Monitoring Plan Forms specify the items or deliverables to be monitored and are signed and dated when they are received in the Procurement Office with new contract packages. The Agency will also continue its efforts to ensure Contract Monitoring Plans contain a summary plan of action should deficiencies be noted during monitoring. The Procurement Office will review this information during its annual contract manager file reviews.

In addition, the Procurement Office will include in its contract manager training, the importance of documenting contract monitoring and including plans of action when deficiencies are noted during monitoring.

Agency Contact:

Lance Dyal
(850) 412-3895

Jennifer Barrett
(850) 412-3887

Medicaid Non-Emergency Transportation (NET) Program Services**Finding 6:**

NET Program Contract Cost Management. The Agency should ensure that sufficient information is obtained and maintained to document that administrative fees paid related to NET Program services were reasonable and did not result in a profit between State agencies.

Recommendation:

We recommend that the Agency monitor CTD administrative costs and maintain documentation to demonstrate that the NET Program contract rates are reasonable and do not result in a profit between State agencies.

Agency Response:

On April 24, 2013, the Agency initiated corrective action with the CTD. As such, the CTD will be submitting documentation to verify the actual transfer of funds to their vendors throughout the state. Documentation of the transfer of funds from the CTD to the subcontractors (vendors) will verify that the CTD is not retaining an excessive amount of funds for their administrative costs. This issue will be reviewed at the scheduled annual contract monitoring on May 14-15, 2013, as an ongoing, annual requirement for contract compliance.

Agency Contact:

Susan Hamrick
(850) 412-4210

Tangible Personal Property Administration**Finding 7:**

Tangible Personal Property Inventory Procedures. The Agency needs to update its *Property Manual* and continue efforts to improve the timeliness of the tangible personal property physical inventory and related reconciliation process.

EXHIBIT A (CONTINUED)
MANAGEMENT'S RESPONSE

Agency for Health Care Administration
AG 10-12 Operational Audit – AHCA
Prior Audit Follow-up
Response to Auditor General's P&T Audit Findings and Recommendation

Recommendation:

We recommend that the Agency update its Property Manual to comply with DFS Rules and continue efforts to improve the timeliness of the TPP physical inventory and related reconciliation process.

Agency Response:

The Agency has updated the Property Manual to comply with DFS Rules effective May 2013. The Agency will also continue to work with staff in order to improve the timeliness of the TPP physical inventory and related reconciliation process.

Agency Contact:

Jimmy Taliaferro
(850) 412-3924

Jennifer Barrett
(850) 412-3887

Finding 8:

Property Recording and Inventory. The Agency did not always timely and accurately update tangible personal property records for property acquisitions and transfers.

Recommendation:

We recommend that the Agency continue efforts to ensure that property records are timely and accurately updated for property acquisitions and transfers.

Agency Response:

The Agency will continue its efforts to ensure that property records are timely and accurately updated for property acquisitions and transfers by continuous follow-up with staff until property records are accurate and complete.

Agency Contact:

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