



Wes Moore, Governor · Aruna Miller, Lt. Governor · Laura Herrera Scott, M.D., M.P.H., Secretary

September 16, 2024

The Honorable Guy J. Guzzone
Chair
Senate Budget and Taxation Committee
3 West Miller Senate Office Bldg.
Annapolis, MD 21401-1991

The Honorable Ben Barnes
Chair
House Appropriations Committee
121 House Office Bldg.
Annapolis, MD 21401-1991

RE: 2024 Joint Chairmen’s Report (p. 102-103) – Implementation of Recommendations from Financial Compliance Report

Dear Chairs Guzzone & Barnes:

Pursuant to the 2024 Joint Chairmen’s Report (p. 102-103), the Maryland Department of Health (MDH) respectfully submits this report regarding status in implementing 28 recommendations made by the Office of Legislative Audits (OLA) in its October 2023 fiscal compliance audit for the MDH Office of the Secretary and Other Units. This report builds on the work previously reported last July by MDH in 2023 Joint Chairmen’s Report (p. 124) - MDH & DBM report on corrective actions for a closeout audit finding.

As illustrated in the report and attached table 1, MDH has completed corrective actions for nine (9) of the twenty-eight (28) OLA recommendations and made substantial progress toward full implementation of all other recommendations. MDH continues to work collaboratively with DBM and has engaged an outside accounting firm to assist in these efforts. If further information on this subject is needed, please contact Sarah Case-Herron, Director, Office of Governmental Affairs, at sarah.case-herron@maryland.gov.

Sincerely,

Laura Herrera Scott, MD, MPH
Secretary

- cc: Erin McMullen, MPP, MSN, RN, Chief of Staff, Maryland Department of Health
Fred Doggett, Director of Internal Controls, Audit Compliance, & Information Security Maryland Department of Health
Amalie Brandenburg, Chief Financial Officer, Maryland Department of Health
Sarah Case-Herron, JD, Director of Governmental Affairs
Sarah Albert, Department of Legislative Services (5 Copies)

2024 Joint Chairmen’s Report (p. 102-103)
Report on Implementation of Recommendations from Financial Compliance

In October of 2023, the Office of Legislative Audits (OLA) released its compliance audit for the MDH Office of the Secretary and Other Units making 28 recommendations to MDH. This report details the corrective actions taken to address these recommendations including personnel and budgetary changes associated with implementation of the recommendations. As of this report, nine (9) of the twenty-eight (28) recommendations have been addressed by corrective actions and the remaining recommendations are well underway to be addressed. More details on the status of these recommendations can be found in Table 1.

MDH made significant progress in addressing OLAs recommendations through specific and intentional steps such as:

- Engaging an external accounting firm, as recommended by OLA, to assist with corrective actions related to findings 1 through 5. The contract was initiated on August 2, 2023 and amended on January 29, 2024. In collaboration with the external accounting firm, MDH has successfully completed numerous reconciliations, standardized and documented existing processes, and developed enhanced procedures. These initiatives, once fully implemented, are designed to address the identified financial accounting issues and help MDH prevent similar findings in the future. Our commitment to fully comply with all the recommendations will extend beyond the current calendar year. This is due to the complexity of analyzing and identifying variances within the data from FY10 to the present and processing the appropriate adjusting entries to make the necessary corrections. These reconciliations, documented processes, and process improvements will help increase accuracy and transparency to prevent these findings from recurring in the future.
- Completing an internal review of a contract cited by OLA. Based on that review, MDH identified numerous enhancements that could improve procurement and contract monitoring procedures. In April 2024, MDH hired a new Chief of Contracts who was tasked to develop and implement such procedures.
- Developing and implementing procedures for prompt payroll reconciliations, certification of timesheets, employee payroll and leave adjustments.
- Developing procedures to identify and, as necessary, recover improper payments to terminated employees.

Office of Finance: Findings 1-5

The Office of Finance has taken concrete steps to implement corrective actions to resolve the OLA findings attributed to them. To assist with this effort, MDH engaged with an external accounting firm in August of 2023 and have added seven (7) additional fiscal PINs to implement

the process improvements that have been put into place. The status of each finding can be found in Table 1.

Finding 1: MDH, in coordination and collaboration with an external accounting firm, has developed reconciliations, documented processes and developed a process flow to document how adjudicated claims are processed through MMIS II, paid through FMIS and how claims are identified as an error. Work is ongoing to enhance existing processes, especially those related to the prompt resolution of rejected claims. It should be noted, however, that such claims represent less than 1% of total claims.

To date, MDH has completed the following deliverables for this finding, MMIS II to FMIS Reconciliation, Medicaid Fund Split Process Narrative, MMIS II Claims Process Flow, and MMIS II Claims Payments Process Business Narrative. Once the reconciliations and other work noted in 1.a. are complete and fully documented, MDH will report any unfunded liabilities as recommended.

Finding 2 - 4: MDH is performing reconciliations and reviewing all reconciliation findings and corrections with the Deputy Director of Medicaid Office of Finance, and documented the following: PMS to Clearing Account to FMIS Reconciliation (includes CMIA Reconciliation) to confirm MMIS II transactions are allocated properly to the correct PCA in FMIS and Expenditure Review and Federal Matching Workbook. Performance of the reconciliations are in the process of being transitioned back to MDH with supervisory review. MDH will continue to work with the external accounting firm to develop enhanced workbooks to further increase Excel based automation as well as accuracy and completeness of related processes, which is expected to be completed by December 31, 2024.

In addition, OLA recommended MDH *ensure clearing accounts have either positive or zero balance*. MDH is performing historical reconciliations to identify discrepancies in previous fiscal years that were not reconciled. It is important to note that reconciliations mentioned in Finding 4.a. identifies clearing accounts with a negative balance so that a root cause analysis can be performed, and correcting entries can be processed. MDH is still in the process of investigating and resolving the aforementioned account balance, which completion may require reconciliations going back more than a decade. However, MDH is working with an external accounting firm to have this finding corrected by June 30, 2025.

Finding 5: MDH is working to *ensure that all year-end revenue transactions are properly supported (Finding 5.a)*. Additional work will be required to more fully analyze the automated script to determine the accuracy of the accrual, and the development of a plan is expected to be completed by December 31, 2024. MDH has been recommended to *analyze the balances in the federal fund accounts to determine the collectability of any deficit balances and proper disposition of any surplus balances (Finding 5.b)*. MDH is currently performing analysis on the DDA deficit balance, including analyzing FY18 to the present to determine the appropriate accounting treatment and collectability of any deficit balances. Additionally, MDH will be

performing analysis on the surplus balance related to Medicaid and CHIP to determine the appropriate accounting treatment and disposition of any surplus balances. MDH has completed reconciliations that analyze the balance of the federal fund accounts and will identify variances so that root cause analysis can be performed, and correcting entries processed.

Finding 5.c, recommends MDH to *properly report any amounts determined to be uncollectible and work with DBM to resolve any related deficits*. Following the completion of the analysis from Finding 5.b., MDH will report any uncollectible amounts and work with DBM to resolve any related deficits, with an anticipation completion date of June 30, 2025.

Office of Contract Management and Procurement: Findings 6 & 7

The Office of Contract Management and Procurement (OCMP) has reviewed the OLA recommendations for the findings attributed to them and has put corrective action into place, which included hiring a new Chief of Contracts. Additionally, MDH has conducted an internal review that included recommendations for enhanced MDH-specific procurement procedures and MDH-specific contract monitoring guidance.

OCMP has developed emergency procurement processes and is hosting an emergency procurement training session on September 18, 2024, including that OCMP staff to publish solicitations and awards on eMaryland Marketplace Advantage as required. The OCMP Director has instituted procurement processing standards that require the pre-approval of sole source contracts. These standards will be updated to incorporate standards regarding price negotiations and documentation of the same, which is expected to be completed by December 31, 2024.

OCMP is also currently finalizing the contract monitoring standards and has held two contract monitoring training sessions (January 8, 2024 and August 22, 2024) for MDH staff to provide overall best practices for contract monitoring.

Additionally, OCMP received approval for the allocation of one (1) additional PIN which will act as a Market Research Analyst. One of the role's duties will be reviewing all sole source and single bid contracts to ensure that not only is the sole source/single bid justified, but also that the pricing received is fair and reasonable.

Office of Human Resources: Findings 13-15

The Office of Human Resources (OHR) has undertaken measures to address the identified findings and has successfully resolved several of the findings. OHR has developed enhanced procedures for the review and approval of leave balance adjustments, time approved by Payroll, and reconciliations.

OHR has developed enhanced procedures regarding timely posting of and recovery payments to employees leaving or terminated from State service. These procedures are being validated. OHR is developing enhanced procedures regarding timely posting of and recovery payments to

employees leaving or terminated from State service. The anticipated completion is December 31, 2024.

In relation to collections, OHR has developed operating procedures and is restrictively endorsing collections immediately upon receipt. MDH is committed to making deposits in good faith by the next business day of receipt. In addition, MDH internal review indicates that the deposit verification process is adequate. However, it will be subject to ongoing internal review. Currently, MDH is studying the requirement of large payments to be made electronically to enhance control over the funds and will prepare a documented analysis.

Table 1. Status of Corrective Actions
Maryland Department of Health - Office of the Secretary
 Status of OLA Recommendations – report dated October 2023

Recommendation	Status	Associated personnel/ budgetary changes	Estimated completion date
<p>1.a. <i>Establish procedures to ensure that MDH units properly recorded all payments in MMIS II and subsequently resolved all rejected claims.</i></p>	<p>In progress: Working with the external accounting firm, MDH has developed reconciliations, documented processes and developed a process flow that documents how adjudicated claims are processed through MMIS II, paid through FMIS and how claims are identified as an error.</p> <p>Work is ongoing to enhance existing processes, especially those related to the prompt resolution of rejected claims. It should be noted, however, that such claims represent less than 1% of total claims.</p> <p>Completed deliverables include:</p> <p>MMIS II to FMIS Reconciliation</p> <p>Medicaid Fund Split Process Narrative</p> <p>MMIS II Claims Process Flow</p> <p>MMIS II Claims Payments Process Business Narrative</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p> <p>MDH units added 7 fiscal PINs to support reconciliations, updated processes and procedures identified through our corrective action plan.</p>	<p>Development of a plan by 12/31/2024</p>

<p>1.b. <i>Report the aforementioned unrecoverable funds to DBM and the budget committees and develop a plan to cover the related unfunded liabilities.</i></p>	<p>Not started: Once the reconciliations and other work noted in 1.a. are complete and fully documented, MDH will report any unfunded liabilities as recommended.</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>Development of a plan by 12/31/2024</p>
<p>2. <i>Establish a formal policy and procedures, including the appropriate procedural safeguards, to ensure the critical quarterly reconciliations are completed properly and timely, and reviewed and approved by a supervisor independent of the reconciliation process.</i></p>	<p>Complete: Working with the external accounting firm, MDH is performing required reconciliations and reviewing all reconciliation findings and corrections with the Deputy Director of Medicaid Office of Finance. Additionally, MDH has documented related procedures:</p> <p>Reconciliations:</p> <p>Quarterly Drawdown to CMS-64 Reconciliation and Methodology (Medicaid & DDA)</p> <p>Weekly Drawdown to PMS Reconciliation and Methodology (Medicaid, DDA, BHA)</p> <p>MMIS II and FMIS to CMS-64 Reconciliations and Methodology (Medicaid, DDA, BHA)</p> <p>Procedures:</p> <p>Weekly Drawdown SOP and process flow (Medicaid)</p> <p>Quarterly Drawdown to CMS-64 SOP and Process Flow (Medicaid)</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>12/31/2024</p>

	<p>DDA Accounts Payable and Invoicing Process SOP (DDA)</p> <p>In progress: Performance of the reconciliations need to be transitioned back to MDH and supervisory review needs to be formally implemented. MDH is working with the external accounting firm to develop enhanced workbooks to further increase Excel based automation as well as accuracy and completeness of related processes.</p>		
<p>3. <i>Establish a documented procedure to ensure that all federal funds requested were received.</i></p>	<p>Complete: Working with the external accounting firm, MDH is performing and has documented:</p> <p>Weekly Drawdown to PMS Reconciliation</p> <p>Weekly Drawdown SOP and process flow</p> <p>Quarterly Drawdown to CMS-64 SOP and process flow</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>8/30/2024</p>
<p>4.a. <i>Establish procedures and controls to ensure federal funds are allocated properly and timely, and that the related transactions are subject to supervisory review and approval.</i></p>	<p>Partially Complete:</p> <p>Complete: Working with the external accounting firm, MDH is performing reconciliations and reviewing all reconciliation findings and corrections with the Deputy Director of Medicaid Office of Finance, and documented the following:</p> <p>PMS to Clearing Account to FMIS Reconciliation (includes CMIA Reconciliation) to confirm MMIS II transactions are allocated properly to the correct PCA in FMIS</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>12/31/2024</p>

	<p>Expenditure Review and Federal Matching Workbook</p> <p>In progress: Performance of the reconciliations need to be transitioned back to MDH and supervisory review needs to be formally implemented. MDH is working with the external accounting firm to develop enhanced workbooks to further increase Excel based automation as well as accuracy and completeness of related processes.</p>		
<p>4.b. <i>Ensure clearing accounts have either a positive or zero balance.</i></p>	<p>In progress: Working with the external accounting firm, MDH will perform historical reconciliations to identify discrepancies in previous fiscal years that were not reconciled.</p> <p>Reconciliations mentioned in 4a. do identify clearing accounts with a negative balance so root cause analysis can be performed, and correcting entries can be processed.</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>6/30/2025</p>
<p>4.c. <i>Investigate and resolve the aforementioned account balances.</i></p>	<p>In progress: Complete resolution may require reconciliations going back more than a decade.</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>6/30/2025</p>
<p>4.d. <i>Consider engaging a qualified third-party consultant to assist in the development of appropriate corrective procedures and controls.</i></p>	<p>Complete: MDH engaged with an outside accounting firm in August 2023.</p>		<p>8/2/2023</p>

<p>5.a. <i>Ensure that all year-end revenue transactions are properly supported.</i></p>	<p>In progress: The MMIS II to FMIS and PMIS to Clearing Account to FMIS reconciliations will make the ending balances for MDH more accurate on an ongoing basis.</p> <p>Additional work is required to more fully analyze the automated script to determine the accuracy of the accrual.</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>Development of a plan by 12/31/2024</p>
<p>5.b. <i>Analyze the balances in the federal fund accounts to determine the collectability of any deficit balances and proper disposition of any surplus balances.</i></p>	<p>In progress: Working with the external accounting firm, MDH is performing analysis on the DDA deficit balance, including analyzing FY18 - present to determine the appropriate accounting treatment and collectability of any deficit balances. Additionally, they will be performing analysis on the surplus balance related to Medicaid and CHIP to determine the appropriate accounting treatment and disposition of any surplus balances.</p> <p>Documents:</p> <p>PMS to Clearing Account to FMIS Methodology (Medicaid) EST 9/6/24</p> <p>Completed:</p> <p>Working with the external accounting firm, MDH has completed reconciliations that analyze the balance of the federal fund accounts and will identify variances so that root cause analysis can be performed, and correcting entries processed.</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>6/30/2025</p>

	<p>Reconciliations:</p> <p>PMS to Clearing Account to FMIS Reconciliation (Medicaid)</p> <p>Quarterly Drawdown to CMS-64 Reconciliation and Methodology (Medicaid & DDA)</p>		
<p>5.c. Properly report any amounts determined to be uncollectible and work with DBM to resolve any related deficits.</p>	<p>Not started. Once the analysis is completed from step 5.b., MDH will report any uncollectible amounts and work with DBM to resolve any related deficits..</p>	<p>MDH engaged with an external accounting firm to address this recommendation.</p>	<p>6/30/2025</p>
<p>6.a. Conduct a review of [a specific] contract, which includes obtaining the detailed staffing information required by the contract, determine the extent of the services that were provided in relation to payments made, recover any payments determined to be improper, and disclose this information to BPW.</p>	<p>Complete: MDH conducted an internal review that included recommendations for: enhanced MDH-specific procurement procedures and MDH-specific contract monitoring guidance.</p> <p>See 6.b. below.</p>	<p>N/A</p>	
<p>6.b. Ensure that future emergency contracts are procured and documented in accordance with State procurement regulations and are properly monitored to ensure services were received</p>	<p>Complete: MDH Office of Contract Management and Procurement (OCMP) hired a Chief of Contracts. OCMP has developed emergency procurement processes and is currently finalizing the contract monitoring standards. In addition, OCMP has held contract monitoring training</p>	<p>Added one staff person to OCMP</p>	

<i>and their related billings are adequately supported.</i>	sessions for MDH to provide overall best practices for contract monitoring.		
<i>7.a. Ensure that sufficient documented justifications exist for sole source and emergency procurements.</i>	Complete: MDH OCMP has developed emergency procurement processes and procurement processing standards that capture the need for sufficient justification.	Added one staff person to OCMP	12/31/2024
<i>7.b. Ensure that documented price negotiations are conducted as appropriate.</i>	In progress: MDH OCMP Director has developed procurement processing standards that require the pre-approval of sole source contracts. The standards will be updated to incorporate standards regarding price negotiations and documentation of the same.	Added one staff person to OCMP	12/31/2024
<i>7.c. Ensure that BPW is notified of emergency procurements.</i>	Complete: MDH OCMP Director has developed emergency procurement procedures that include BPW notification. There will be an emergency procurement training occurring in September 2024.	Added one staff person to OCMP	12/31/2024
<i>7.d. Ensure that solicitations and awards are published on eMMA as required.</i>	Complete: MDH OCMP Director has developed procurement processing standards and emergency procurement procedures that require OCMP staff to publish solicitations and awards on eMMA as required.	Added one staff person to OCMP	12/31/2024
<i>13. Take formal action to address the backlog in unbilled services and ensure future services are billed in a timely manner.</i>	Complete (pending testing). MDH has documented that payments are up to date.	N/A	

<p>14.a. <i>Independently verify pay and leave balance adjustments to ensure that only authorized adjustments have been processed and take appropriate corrective action when errors are noted.</i></p>	<p>Complete: MDH Office of Human Resources has developed enhanced procedures for the review and approval of leave balance adjustments.</p>	<p>N/A</p>	
<p>14.b. <i>Retroactively verify that the time recorded on timesheets approved by payroll unit employees were actually worked.</i></p>	<p>Complete: MDH Office of Human Resources has developed enhanced procedures for the review and time approved by Payroll.</p>	<p>N/A</p>	
<p>14.c. <i>Reconcile total payroll as reflected in CPB payroll registers each pay period with SPS payroll summary reports, investigate any differences, and ensure that those reconciliations are documented.</i></p>	<p>Complete: MDH Office of Human Resources has developed enhanced procedures for the review and approval of reconciliations.</p>	<p>N/A</p>	
<p>15.a. <i>Implement procedures to ensure timely posting in SPS of employees who are terminated or leave State service.</i></p>	<p>In progress: MDH OHR has developed enhanced procedures regarding timely posting of and recovery payments to employees leaving or terminated from State service. These procedures are being validated.</p>	<p>N/A</p>	<p>12/31/2024</p>
<p>15.b. <i>Investigate any payments to employees after they left State service, and in consultation with legal counsel pursue recovery of any</i></p>	<p>In progress: MDH OHR is developing enhanced procedures regarding timely posting of and recovery payments to employees leaving or terminated from State service.</p>	<p>N/A</p>	<p>12/31/2024</p>

<i>improper payments as deemed appropriate.</i>			
16.a. <i>Restrictively endorse collections immediately upon receipt.</i>	Complete: MDH OHR developed operating procedures and is restrictively endorsing collections immediately upon receipt.	N/A	
16.b. <i>Deposit collections within one business day of receipt.</i>	Complete: MDH is committed to making deposits in good faith by the next business day of receipt.	N/A	
16.c. <i>Ensure that independent deposit verifications are documented for all collections.</i>	Complete: MDH internal review indicates that the deposit verification process is adequate. Subject to ongoing internal review.	N/A	
16.e. <i>Consider requiring large payments to be made electronically to enhance control over the funds.</i>	In progress: MDH is studying this issue and will prepare a documented analysis. MDH cautions, however, that the use of electronic ACH transfers could create confusion and complicate reconciliation of expenditures to revenues.	N/A	12/31/2024
17. <i>Ensure that appropriate corrective actions are implemented to address Office of Legislative Audits report findings.</i>	In progress: MDH has engaged an external accounting firm to help MDH address certain prior audit findings made by OLA. In addition, MDH Office of the Secretary has enhanced its procedures for following up on OLA findings, including earlier and more regular engagement with program offices regarding the development, implementation, and testing of corrective actions.	N/A	12/31/2024