

## **LBA Financial Audit Report Summary:**

### **Department of Health and Human Services, Medicaid Program, for the Year Ended June 30, 2002**

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#### **Reporting Entity And Scope**

The reporting entity and scope of this audit and audit report is the Medical Assistance (Medicaid) program of the New Hampshire Department of Health and Human Services for the year ended June 30, 2002.

Medicaid, a federally-aided state program established under Title XIX of the Social Security Act, provides medical assistance to low income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children. Within broad federal guidelines, states design and administer the Medicaid program under the general oversight of the Centers for Medicare and Medicaid Services (CMS). In New Hampshire, the Department of Health and Human Services (Department or DHHS) is the primary State agency responsible for administering the Medicaid program.

#### **Organization**

The Department of Health and Human Services was reorganized under the terms of RSA 126-A, effective November 1, 1995. The Department is under the executive direction of a commissioner who is appointed by the Governor, with the consent of the Executive Council, to a four-year term. The commissioner is authorized to nominate an assistant commissioner and division directors. The Medicaid program is administered by the following offices and divisions within the Department: Office of Health Planning and Medicaid; Office of the Commissioner; Division for Children, Youth and Families; Division of Family Assistance; Division of Elderly and Adult Services; Division of Behavioral Health; and Division of Developmental Services. The New Hampshire Department of Justice is responsible for the operation of the Medicaid Fraud Control Unit in the State.

At June 30, 2002, the Department employed approximately 3,500 employees and was organized into nine offices and seven divisions.

### **Responsibilities**

The Medicaid program was established in 1965 as a federal-state entitlement program to provide health care to low-income individuals who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children. The purpose of the Medicaid Act is to enable each State...to furnish ...rehabilitation and other services to help such families and individuals attain or retain capability for independence or self care (42 U.S.C. § 1396). States develop state plans consistent with the requirements of the Medicaid Act in order to receive federal financial participation. Every state plan consists of a mix of required and optional categories of health services. Significant required categories of service include inpatient and outpatient hospital care, physician's services, skilled nursing facility services for persons over age 21, medical supplies and equipment, etc. Optional services provided by the New Hampshire State Plan include, but are not limited to, prescribed drugs, home and community based services for individuals with disabilities and chronic medical conditions, clinic services, and dental services. In fiscal year 2002, New Hampshire's Medicaid program had expenditures of approximately \$963 million for health care services and served an average monthly enrollment of approximately 84,000 recipients.

### **Funding**

The federal, state, and local governments share Medicaid program costs. In general, the federal government contributes 50% of program medical and administrative costs and up to 90% of certain computer development and installation costs. Local revenues primarily include county contributions for skilled nursing facilities and other costs. The actual financial activity of the Medicaid program is accounted for in the General Fund of the State of New Hampshire and is summarized below.

## Summary Of Medicaid Program Revenues And Expenditures For The Year Ended June 30, 2002

Revenues	
Federal Revenues	\$ 487,511,740
Local Revenues	<u>66,012,831</u>
<b>Total Revenues</b>	<b><u>\$ 553,524,571</u></b>
<b>Expenditures</b>	<b><u>\$ 962,952,608</u></b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b><u>\$ 409,428,037</u></b>

The auditor's report on the Medicaid Program financial statement was qualified with respect to the lack of presentation of the financial position of the Medicaid program in the General Fund.

The audit report included the auditor's reports on compliance and internal control over financial reporting and on management issues. The following is a list of the comments in the report.

### ***Internal Control Comments***

#### *Material Weaknesses*

- General Computer Controls Must Be Improved
- Expenditures Should Be Charged To The Correct Accounts And Accounting Periods

#### *Other Reportable Conditions*

- Security Of Contracted Automated Data Processing Systems Should Be Subject To Regular Review

- The Medicaid Fee Structure Should Be Reviewed
- Financial Transactions Should Be Recorded And Processed As They Occur
  - Year-End Medicaid Accounts Payable Calculation Should Be More Efficient
  - Contracts Should Not Be Amended Without Proper Approvals
  - Disproportionate Share Calculations Should Be Reviewed And Verified
  - Segregation Of Duties Controls Over Fee Setting Should Be Improved
  - Contractors Establishing Medicaid Rates Should Be Monitored To Ensure Accurate Rate Setting
  - Monitoring Of Drug Rebates Must Be Improved
  - Analysis Of Pharmacy Benefits System Denied Claims Should Be Performed
  - Mechanism To Monitor Usual And Customary Charges For Pharmaceuticals Should Be In Place
  - Controls Over The Operation Of The Pharmacy Benefits System Should Be Improved
  - Data Failing Control Edits Should Be Corrected To Prevent The Need To Force Transactions
  - Effective Change Control Process Should Be Established For The Pharmacy Benefits System
  - Payments For Prescription Drugs Should Be Monitored

### ***Compliance Comments***

#### *Federal Compliance*

- Medicaid Allowability Of Services Provided By Expanded Case Management Should Be Documented
- Provider Licenses And Enrollment Agreements Should Be Kept Current
- Client Eligibility Files Should More Accurately And Completely Document Client Status
- Controls Over Third Party Liability Should Be Improved
- New Hampshire Hospital Disproportionate Share Calculations Should Be Better Controlled
- Federally Required Quality Control Reporting Should Be Submitted

- The Organizational Independence Of The Surveillance Utilization Review Unit Should Be Increased  
*State Compliance*
- Expired Administrative Rules Should Be Revised And Readopted As Appropriate
- Authority For Incentive Fees Should Be Established

#### **Auditor's Report On Management Issues**

##### ***Management Issues Comments***

- Additional Support In The Surveillance Utilization Review Unit Should Be Considered

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