STATE OF CALIFORNIA - HEALTH AND HUMAN SERVICES AGENCY

ARNOLD SCHWARZENEGGER, *Governor*

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS
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December 31, 2009

Mr. Michael C. Genest, Director
Department of Finance
State Capitol, Room 1145
Sacramento, California 95814

Dear Mr. Genest:

In accordance with the Financial Integrity and State Managers Accountability Act of 1983, Government Code Sections 13400 through 13407, I am submitting the enclosed report describing the review of our systems of internal control for the biennial period ended December 31, 2009.

If you should have any questions concerning this report, please contact Alice Huffaker at (916) 322-3014.

Sincerely,

RENÉE ZITO, LMSW, CASAC
Director

Enclosure

cc: Governor Arnold Schwarzenegger
Chair, Joint Legislative Audit Committee
Bureau of State Audits
State Library

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Risk and Control Assessment

Department of Alcohol and Drug Programs

Prepared By:
Office of Grants Management
Department of Alcohol and Drug Programs

December 2009

AGENCY NAME: Health and Human Services
DEPARTMENT NAME: Alcohol and Drug Programs
ORGANIZATION CODE: 4200

INTRODUCTION:

In accordance with the Financial Integrity and State Managers Accountability (FISMA) Act of 1983, the Department of Alcohol and Drug Programs (Department) submits this report on the review of its systems of internal control for the biennial period ended December 31, 2009.

Should you have any questions please contact Alice Huffaker, Chief, Office of Grant Management at (916) 322-3014 or ahuffaker@adp.ca.gov.

BACKGROUND:

The mission of the Department is to lead efforts to reduce alcoholism, drug addiction, and problem gambling in California by developing, administering and supporting prevention, treatment and recovery programs.

The Department is the primary source for funding for the prevention and treatment of alcohol and other drug abuse and for problem gambling prevention and treatment. The Department works in partnership with the State's 58 county alcohol and drug program administrators and in cooperation with numerous private and public agencies, organizations, and individuals. These activities are addressed by approximately 319 staff positions and an annual budget of $661 million.

The Department is comprised of the following offices/divisions:

DIRECTORATE

- EXECUTIVE OFFICE
  - Office of Problem Gambling
  - Office of Legal Services
  - Office of Grants Management
  - Office of Legislative and External Affairs
  - Communications
  - Office of Criminal Justice Collaboration

PROGRAM SERVICES DIVISION

- TREATMENT SERVICES BRANCH
  - Program and Fiscal Policy
  - Performance Management
  - Fiscal Management and Accountability
  - Women's & Youth Services
- PREVENTION SERVICES BRANCH
  - Prevention Policy and Program Improvement
  - Prevention Program Management
  - Prevention and Treatment Resource Center

LICENSING AND CERTIFICATION DIVISION

- POLICY AND PROGRAM SUPPORT BRANCH
- PROGRAM COMPLIANCE BRANCH
- FIELD OPERATIONS BRANCH

DIVISION OF ADMINISTRATION

- ACCOUNTING OFFICE
- FISCAL AND ADMINISTRATIVE SERVICES BRANCH
  - Contracts Section
  - Business Services Section
  - Budget Office
- AUDIT SERVICES BRANCH
- HUMAN RESOURCES BRANCH

INFORMATION MANAGEMENT SERVICES DIVISION

- HIPAA
- PROJECT MANAGEMENT OFFICE
- TECHNOLOGY BRANCH
  - Project Management Section
  - Technology Support Section
  - Data Management Section

VACANT POSITIONS:

The Department is compliant with Government Code Section 12439.

RISK ASSESSMENT:

The Department adapted the Texas Small Agency Risk Assessment Tool and instructions as the basis for the Department's risk assessment. Executive staff and managers received technical assistance and training about how to conduct the risk assessment, which included a review of the "Overview of Internal Control" slides presented by Mr. Sefton Boyers on October 29, 2009, at the "What Executive Management Needs to Know about Federal Compliance" seminar presented by the Department of Finance Office of State Audits and Evaluations (Finance). Executive staff and managers also received an Internal Controls Handbook, adapted from the Finance *2008 Guidance for Evaluation of Internal Controls*, "Attachment A—Understanding an Entity's Environment and System(s) of Control."

Each division/office then used the Risk Assessment Tool and instructions to brainstorm their activities, consolidate their activities, identify risks, rate the risks by impact and probability if there were no controls, identify the existing controls to assure that risks are reasonably reduced, identify weaknesses, and propose measures to mitigate risks that did not have adequate controls.

STATUS OF PRIOR FINDINGS:

The Department received an A-133 Audit for its Safe and Drug Free Schools and Communities Act (SDFSCA), State Grants, Governor's Program for State Fiscal Years 2006-07 and 2007-08 and for the Substance Abuse Prevention and Treatment (SAPT) Block Grant for State Fiscal Year 2007-08. Findings with which the Department concurred have been corrected; other findings were either not upheld by the federal awarding agency, or are currently being reviewed by federal awarding agencies.

Finance conducted an internal control review of the Department of Alcohol and Drug Programs in 2007. Following is the status of unresolved findings noted in the 2007 report:

Division of Administration

Prior Issue: The Department did not make timely remittances to the Sate Treasurer of amounts above the $25,000 limit as required by law.
Status: The Department is making timely remittances to the State Treasurer.

Prior Issue: Reconciliations did not occur between Personnel/Payroll on a monthly basis.
Status: Reconciliations between Personnel/Payroll on a monthly basis continue to be an issue. The issue is reiterated in the "Current Evaluation of Risks and Controls" portion of this report.

Prior Issue: Checks written at the Department are typed using correctable ribbon.
Status: The typewriter used for writing checks does not allow correction.

Prior Issue: The Department's leave credit balances were not current.
Status: Leave credit balances are current.

Prior Issue: The Department did not maintain adequate written procedures for handling undeliverable warrants.
Status: There are adequate written procedures for handing undeliverable warrants.

Prior Issue: The number of Drug Medi-Cal (DMC) audits is not sufficient to deter overcharges and protect the State's funds. The Audit Services Branch should work with the field auditors and legal counsel to eliminate unnecessary or non-beneficial steps in the audit program to decrease the amount of time spent on DMC audits.
Status: The number of audits continues to be an issue, which is specifically addressed in the "Current Evaluation of Risks and Controls" portion of this report.

Program Service Division

Prior Issue: The Negotiated Net Amount/Drug Medi-Cal (NNA/DMC) system is a stand-alone system that does not interface with any of the systems for Drug Medi-Cal billing activities. This includes the Short-Doyle Medi-Cal, which is managed and administered by the Department of Health Care Services, as well as the Tracking and Payment System (TAPS), which is managed and administered by the Department. The NNA/DMC system and TAPS do not interface with CalSTARS.
Status: This finding will be addressed by the implementation of Short-Doyle Medi-Cal Phase 2 (SDMC P2) and SMART II. The SDMC P2 is scheduled to become operational January 1, 2010, and SMART II is scheduled for implementation mid-February 2010. SMART II will replace the existing TAPS.

Information Management Services Division

Prior Issue: IMSD relies heavily on student assistants and retired annuitants to meet its workload. In addition, five of its ten full time staff were to be retiring within three years of the time the report was written.

Status: IMSD no longer relies on student assistants and retired annuitants to perform critical functions. IMSD has reduced reliance on contractors; IMSD staff are performing critical functions.

Prior Issue: The Department will not be able to make process claims or make timely reimbursements if the HIPAA Translator fails. The Department should continue to develop a continuity of operations contingency plan with the Department of Mental Health (DMH) and the Department of Health Care Services (DHCS) to address the risk of such failure while it anticipates the full initiation of the new Short-Doyle replacement system.
Status: The Department is participating in the Short-Doyle Medi-Cal Phase 2 (SDMC P2) project initiated by DHCS. The SDMC P2 project replaces the current Short-Doyle Medi-Cal (SDMC) system. SDMC P2 is on schedule for implementation on January 1, 2010. Upon implementation of SDMC P2, the translator will be eliminated for adjudicating Drug Medi-Cal (DMC) and any other SDMC claim files for service costs eligible for federal and State Medicaid (Medi-Cal) fund reimbursement. The Department will use the business continuity plans for the DMH for submission of DMC claims to the State for adjudication, and the DHCS business continuity plan for the adjudication of claims. The Department will develop a plan for business continuity to notify payees and make payments to DMC claim submitters in case of SDMC P2 failure after the implementation of SDMC P2.

Office of Grants Management
Issue: There is key person dependence on the SSM II in the Office of Grants Management.
Status: Additional staff are being trained to reduce the key person dependence. The technical nature of grants management and staff turn-over continue to be barriers to fully resolving the issue.

CURRENT EVALUATION OF RISKS AND CONTROLS:

Cross Cutting
These issues affect more than one division in the Department, and are therefore consolidated, as follows:

Issue #1: Furlough Days Department staff are furloughed the first three Fridays of every month. In addition to accomplishing normal workload, staff must also complete a number of new initiatives including implementation of the new Short-Doyle billing system, participating in the drafting of the Section 1115 Medi-Cal Waiver, addressing how to implement parity in substance abuse health insurance coverage, and potential changes in the entire health care system. There is recognition that both the ongoing work of the Department and full participation in these new initiatives cannot be accomplished. The Department is at risk of being unable to provide the necessary administrative/policy inputs to address imminent changes, some of which are listed above, while at the same time providing sufficient direction to county administrators and provider communities. There is a tandem risk that the Department may not be able to fully participate in addressing the changes that are occurring, which could also result in additional gaps in services, inconsistent services, or the loss of services to the public.

The furloughs are creating administrative savings in the Department's federally funded staff positions. It is the Department's policy to maximize the use of the federal funds it

administers. However, revising county contracts to distribute these savings is labor intensive and time consuming. There is a risk that federal funds will be returned to the federal entity rather than being expended for substance abuse services.

Corrective Action: The Department has scheduled a meeting in January 2010 to discuss prioritizing current and ongoing workload and anticipated projects in the coming year. Next steps, including the potential of conducting a business process evaluation to streamline processes, will come from that meeting.

Issue #2: Reconciliation of Fiscal Information Various program divisions within the Department deal with fiscal information. Not all this information is reconciled with the Division of Administration. This creates the risk that the Department may rely on inaccurate information for reporting and planning purposes.

Corrective Action: The Department will establish methods for reconciling fiscal data between Administration and Program systems.

Issue #3: Budget Cuts The Substance Abuse Prevention and Treatment (SAPT) Block Grant is the primary funding source for substance abuse services in the state; these funds are used to sustain a system of care. The SAPT Block Grant requires the Single State Agency of the State to expend in the current fiscal year no less in non-federal funds than the average of such expenditures for the two previous fiscal years. This is known as a Maintenance of Effort (MOE) requirement. If the Department does not meet its MOE requirement, its SAPT Block Grant allotment can be reduced dollar for dollar for the entire amount of the MOE shortfall. The regulation allows the State to request an MOE waiver if it meets specified criteria, including decreases in tax revenues and increases in unemployment or decreases in employment during a specified time period. The federal entity may waive all or a portion of the MOE requirement. There is a risk that continued cuts to the State budget will result in significant reductions to the annual SAPT Block Grant allotment. As a result, the system for providing services could break down, which would result in severe reductions in or loss of services.

Corrective Action: The Department will continue to advise state control agencies of the impacts of budget cuts. It will also continue to advise its federal entity of potential MOE shortfalls and work with the federal entity to submit complete and accurate MOE waiver requests. The Department will continue to discuss with the counties the impacts of any additional budget reductions.

Issue #4: Inadequate Information Systems The Department has limited staff and resources to properly address competing information technology (IT) needs and demands. Existing IT systems are disparate and have little ability to communicate with one another. Additionally, these systems lack the flexibility to fully support the business needs of the Department.

Corrective Action: At the executive level, the Department will prioritize its IT needs. The Department will apply creativity to IT systems planning, analysis, and delivery, and it will purchase commercial, off-the-shelf systems where possible. The Department will build the core competencies of its own personnel and leverage its staff and resources to design and build IT systems that support the Department's mission.

The following issues are most specific to the identified divisions within the Department.

Licensing and Certification Division

The Licensing and Certification Division (LCD) is responsible for assuring that quality services are provided to program participants in a safe and healthful environment through the licensure, certification, regulation, and oversight of a statewide system of alcohol and other drug recovery and treatment facilities, programs, and counselors.

Issue #1: Applicant Information LCD currently lacks a business management system to adequately maintain and track applicants. Information about applicants who have previously been denied a license and/or are ineligible for a license is not maintained in a central location. There is a risk of inappropriately licensing and/or certifying previously denied and/or ineligible applicants.

Corrective Action: In the absence of sufficient IT infrastructure, a process and procedure involving a spreadsheet of all applicants who have been denied and/or are ineligible for a license will be developed by the Applications Unit in the Policy and Program Support Branch in LCD. Applicant names and reasons for denial/ineligibility will be entered into the spreadsheet. All staff, in every branch of LCD, will submit names and information as they become aware of it. Applications Unit staff will review the spreadsheet when processing applications. This action will be implemented by February 1, 2010.

Issue # 2: Staff Who Travel Many LCD staff are required to travel to complete on-site inspections. There is a risk that staff will misuse their travel.

Corrective Action: A uniform system of travel planning, prior approval and provision of work product will be developed and implemented across LCD branches by February 1, 2010.

Issue # 3: Licensing Consistency Providers must ensure disability access. There is a risk that the Department may license facilities that do not assure disability access.

Corrective Action: To ensure consistent, appropriate licensing of facilities, an implementation plan for disability access will be developed by LCD, Program Services Division, and the Office of Legal Services. Other State agencies will also be consulted. Key staff will receive training about the plan, which will be implemented by June 1, 2010.

Issue #4: Background Checks for Narcotic Treatment Program Physicians
Regulations require that narcotic treatment program physicians have a criminal background check. If staff changes at narcotic treatment facilities without the Department's knowledge, there is a risk that some physicians may not receive the required background check. In the absence of a business management system, LCD currently relies on an informal process by which staff in one branch notify staff in another branch if and when physician staff changes occur.

Corrective Action: LCD will initiate a formal process to ensure the assigned field analysts will routinely inform the licensing analysts of personnel changes. This procedure will be implemented by February 1, 2010.

Program Services Division, Treatment Services Branch
The mission of the Program Services Division (PSD), Treatment Services Branch is to promote innovative and effective treatment and recovery program services. The Treatment Services Branch is comprised of the Program Fiscal and Policy Branch, the Fiscal Management and Accountability Branch, the Performance Management Branch, and the Office of Women's and Youth Services.

Issue: Drug Medi-Cal Contract Fiscal Controls
PSD, Treatment Services Branch, is responsible for administering the Drug Medi-Cal (DMC) contracts, which includes monitoring not only contracts with the counties, but also providers that have "direct" contracts with the Department. The number of direct contracts has doubled within the last two years. The lengthy DMC contract amendment process and inadequate DMC contracts administrative controls within PSD pose the risk that the Department may exceed its budget authority. In addition, there are too few staff to effectively monitor the increased number of DMC direct contracts, which poses the risk that the Department may not recover funds that have been inappropriately expended.

Corrective Action: To improve DMC contract administrative controls and monitoring, PSD will:

- Investigate and implement possible ways to streamline the contract amendment process
- Develop an administrative process to stage and prioritize contract amendments with reductions first so the total amount encumbered stays within the Department's budget authority.
- Investigate possible limitations on the number of direct provider contracts
- Investigate other contract and allocation controls for multi-year DMC contracts

Division of Administration
The Division of Administration is responsible for maintaining and enhancing a strong business environment to support the Department's vision and mission. This Division's mission is to provide excellent customer service by providing accurate and timely financial, administrative, and audit services in support of the Department's programmatic goals and objectives. The Division identified the following risks that need additional controls:

Issue #1: Insufficient Drug Medi-Cal Audits to Prevent Fraud Drug Medi-Cal (DMC) funds have previously been determined to be misused. Because this is an ongoing concern, the Audit Services Branch focuses its audits on this funding. The Audit Services Branch at the Department completed 11 audits in 2006 on the 1,262 providers who filed for DMC reimbursement. This is less than 1 percent audit coverage over the providers receiving funding.

The number of audits is not sufficient to deter overcharges and protect the State's funds by (1) recovering funds paid for services improperly billed, (2) detecting shifting of costs to maximize reimbursement, or (3) referring providers to other agencies for investigation.

Corrective Action: To provide reasonable assurance that federal and state funds have been used for their intended purpose and to refer providers to other agencies for

investigation when necessary, the Department will take the following steps by June 30, 2010:

- Work with its field auditors and legal counsel to eliminate unnecessary or non-beneficial steps in the audit program to decrease the amount of time spent on DMC audits, and thus increase the total number of audits that can be performed
- Modify current assessment tools to ensure that audits are being focused on the providers with the greatest probability of misuse

Issue #2: Lack of Reconciliation Between Personnel/Payroll on a Monthly Basis
Reconciliations between Personnel/Payroll are not occurring on a monthly basis. The lack of reconciliations puts the Department at risk of not recovering funds due.
Corrective Action: A plan to conduct a monthly reconciliation between Personnel/Payroll will be developed and implemented in order to assure that funds due are recovered.

CONCLUSION:
Many of the Department's activities have adequate controls to minimize risk. However, additional controls, as discussed above, are needed. The Department will take actions within its purview to mitigate these risks.