



## DEPARTMENT OF HEALTH

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

July 21, 2023

The Honorable Guy J. Guzzone, Chair  
Senate Budget and Taxation Committee  
Miller Senate Office Building, 3 West  
Annapolis, Maryland 21401

The Honorable Benjamin S. Barnes, Chair  
House Appropriations Committee  
House Office Building, Room 121  
Annapolis, Maryland 21401

**Re: 2023 Joint Chairmen's Report (p. 124) - MDH & DBM report on corrective actions for a closeout audit finding**

Dear Chairs Guzzone and Barnes:

The 2023 Joint Chairmen's Report (JCR), page 124, required that the Maryland Department of Health (MDH), in consultation with the Department of Budget and Management (DBM), submit a report on corrective actions taken to resolve Finding 1 in the Office of Legislative Audits' (OLA) Statewide Review of Budget Closeout Transactions for Fiscal Year 2022. Specifically, the committees were concerned that the finding raised issues that MDH could not support the propriety of \$3.5 billion in accrued federal fund revenue as of June 30, 2022, and that MDH did not identify and recover \$862.5 million in federal fund revenue until prompted. It was requested that the report outline all corrective actions and new accounting processes responding to this audit finding, provide a status update of resolving the audit finding as of July 1, 2023, and a report on the timeline for completing all outstanding corrective actions.

MDH has worked collaboratively with DBM to take corrective action and resolve the closeout audit finding. This report provides the detailed actions taken and estimated timelines for full implementation.

As a result of the implementation of the corrective actions identified in the report enclosed, the overall accounts receivable balance is trending downward, the number of fully reconciled line-items has increased and MDH is well positioned to closeout FY 2023 and provide documentation supporting the propriety of accrued revenue entries recorded and ensure subsequent revenue attainment. MDH is pursuing full recovery of all federal fund revenue and does not anticipate General funds will be needed to cover any related deficits.

If you have any questions about this report, please contact Megan Peters, Acting Director, Office of Governmental Affairs, at [megan.peters@maryland.gov](mailto:megan.peters@maryland.gov).

Sincerely,

Laura Herrera Scott, M.D., M.P.H.  
Secretary

cc: Helene Grady, Secretary, Department of Budget and Management  
Megan Peters, Acting Director, Office of Governmental Affairs  
Sarah Albert, Department of Legislative Services (5 copies)

**2023 Joint Chairmen's Report (p. 124)**  
**Report on Corrective Actions Taken to Resolve Closeout Audit Findings**

**Issues Identified in Finding 1 of the Review of Budget Closeout Transactions for FY 2022**

*Federal Fund Accrual Entries*

The Office of Legislative Audits' (OLA) Statewide Review of Budget Closeout Transactions for Fiscal Year (FY) 2022, released in January 2023, included a finding that the Maryland Department of Health (MDH) could not support the propriety of \$3.5 billion in accrued federal fund revenue as of June 30, 2022. At the end of fiscal year 2022, MDH recorded 1,416 accrued revenue entries totaling \$11.4 billion including 998 positive accrued revenue entries totaling \$7.2 billion and 418 negative accrued revenue entries totaling \$4.2 billion. OLA selected 16 of the positive journal entries totaling \$3.5 billion attributable to various MDH programs for additional review including a \$1.1 billion accrued revenue journal entry posted to a federal funds clearing account.

The majority of accrued revenue journal entries recorded at year-end are a result of an automated script to record year-end revenue entries based on the balance in each account as reflected in the State's Financial Management Information System at year-end. The entries recorded as part of running this script are the source for the Schedule G (report) data that is provided to the Comptroller's General Accounting Division at year-end for closeout, in order to record MDH's federal funds accounts receivable balance. Specifically, the automated system records positive accrued revenue entries representing a receivable for anticipated future funds due (i.e., a deficit where expenditures exceed the revenue recorded in the account) and negative accrued revenue entries representing deferred revenue received in the current fiscal year (i.e., a surplus where revenues exceed the amount of expenditures in the account), but recognized in the subsequent fiscal year.

This process relies heavily on various MDH programs to ensure the appropriateness of the federal drawdown process and that transactions are properly recorded and coded in the State's financial system. The corrective action plan includes addressing this by running the automated script (i.e., Interim Schedule G) quarterly and having the programs review, analyze and reconcile to applicable systems such as Maryland Department of Health Medicaid Management Information Systems (i.e., MMIS), used to record expenditures used for federal drawdown purposes.

OLA was concerned that the age of these accrued revenue entries and lack of related current year expenditures raises concerns whether amounts are still eligible for reimbursement. To the extent that the federal funds are not available, OLA pointed out that State general funds may be needed to cover related deficits. As part of the process described above, the automated script generates positive entries (deficit account balances) which are offset by negative entries (surplus account balances). However, due to untimely allocation of federal fund revenue received, MDH was not able to provide adequate documentation at the time of the audit to support the propriety of the accrued revenue entries. Our corrective action plan includes developing processes to ensure timely allocation of federal fund recoveries to match with related expenditures.

### Identifying and Recovering Federal Fund Revenue

OLA's finding commented on \$862.5 million in federal fund revenue that had not been recovered. As noted by OLA, MDH did request and ultimately recovered the funds in September 2022 after this was brought to our attention.

The untimely draws are attributed to abrupt personnel turnover and the lack of opportunity for knowledge transfer in the Medical Care Program Administration (MCPA). Specifically, MCPA performs quarterly reconciliations to ensure that amounts requested from the federal government through the weekly drawdowns agreed to actual expenditures, and adjusts subsequent reimbursement requests to account for the variances. When the employee who performed the reconciliations abruptly left State service in December 2019, the responsibility for the reconciliation was not appropriately reassigned. Due to this, these quarterly reconciliations were not performed during the period October 2019 through June 2022.

### **Status Update of Resolving the Audit Finding as of July 1, 2023**

#### Federal Fund Accrual Entries

Following is the status of MDH's work to support the \$3.5 billion in accrued federal revenue from the 16 test items that OLA identified in its report.

First, for test items 1 through 15, MDH was able to document that \$2.1 billion of the \$3.5 billion in federal revenue had been attained through normal drawdown processes. In April 2023, MDH provided OLA with supporting documentation that detailed the recovery of federal fund revenue received. OLA advised the documentation would be subject to review as part of a future audit. Following this report, in Appendix A, is a spreadsheet with the status of the audit test items that includes items 1 through 15 related to this \$2.1 billion that has been documented ("amount recovered" from items 1 through 15).

Second, approximately \$1.1 billion of the \$3.5 billion accrued amount identified by the auditors was related to miscoded allocation entries associated with the Medicaid sub-account within the Department's largest federal drawdown clearing account. The miscoded Medicaid entries are offset by \$1.1 billion dollars in unallocated Medicaid revenue that was held in other sub-accounts within the overall clearing account. The overall clearing account has three sub-accounts (Medicaid, CHIP & Money Follows the Person) that had a net positive balance totaling \$8.1 million in unallocated revenue as of June 30, 2022. The overall clearing account is a holding account for revenue drawdowns received by the State Treasurer's Office. Revenue is posted temporarily to the overall federal drawdown clearing account when received from the State Treasurer's Office until reallocation entries are processed to match revenue with expenditures in the program where the grant activity occurred. Due to the complexity of this account, we recognize additional analysis and reconciliation related to transactions and entries posted to the overall clearing account is necessary to properly allocate the revenue previously received to the proper grant program. This work is anticipated to be completed by the end of calendar year 2023. Procedures are being developed to allocate revenue from the clearing account on a monthly basis and fully reconcile the clearing account quarterly with source systems. See item 16 in Appendix A for Clearing Account details.

The remaining balance of the \$3.5 billion identified (\$257 million) was related to estimated claims and accrued grant balances that had not been realized and for which the timeframe to submit claims is still open (see comments on Appendix A for more specific details).

#### Identifying and Recovering Federal Fund Revenue

As a result of this finding, MDH implemented a new procedure in December 2022 to ensure that future reconciliations of actual expenses incurred to federal revenue drawdowns are timely. New and existing staff have been trained to perform the quarterly reconciliations. MDH is in the process of implementing a process to track the quarterly reconciliations to ensure they are completed timely and accurately. Additionally, each quarterly reconciliation will be reviewed by the central MDH finance office.

#### **Corrective Actions and New Accounting Processes Going Forward**

Upon issuance of the OLA Closeout Audit for FY 2022 in January 2023, MDH and the Department of Budget and Management (DBM) established a Joint Closeout Audit Corrective Actions Team that has been meeting weekly. These meetings began March 15, 2023 and are planned to continue to monitor and discuss corrective actions to ensure the issues noted in this finding are corrected. During these meetings FY 2022 issues were discussed, immediate corrective actions to be taken by MDH were identified, and FY 2023 Closeout actions and related process improvements are being discussed. Attached as Appendix B is the MDH Corrective Action Plan with the current status of all items agreed upon by the Corrective Action Team that are being implemented by MDH to ensure that the legacy issues are cleaned up and future federal revenue is recovered timely and appropriately allocated to the applicable federal grant.

The following bulleted items are the key items from the MDH Corrective Action Plan that we would like to highlight:

- Issuance of interim Active Federal Grant schedule that shows revenue obtained and accounts receivable balances (Schedule G) on a quarterly basis. This schedule allows programs and central MDH finance staff to monitor federal fund accounts receivable balances, ensure proper allocation of federal revenue and perform variance analysis.
- Quarterly reconciliation & monitoring of Schedule G with source systems (e.g., Maryland Department of Health Medicaid Management Information Systems, MMIS) to ensure drawdowns are complete and done timely.
- On-going evaluation of other metrics and tools that can assist with monitoring and oversight. For example, evaluating whether data available in the quarterly Schedule G can be presented in a manner to better demonstrate and determine progress being made related to clean up of long standing accruals and federal revenue attainment.

MDH acknowledges certain accounting entries to properly allocate federal fund revenues should be performed on a regular basis. During FY 2023, programs have been implementing procedures to ensure these entries are being made timely. Specifically for closeout, MDH program staff have been researching prior year federal fund revenues and expenditures to process adjusting

journal entries to clean up long standing positive and deficit balances (accruals), that appear on the Schedule G at closeout. MDH processes implemented, or re-established, will closely monitor federal fund revenues received to match to accruals to provide assurance that recoveries are occurring and are being allocated timely. In addition, the monitoring of federal fund revenues and federal fund revenue accruals will ensure the appropriateness of the revenue attainment at the line detail level of the grant expenditure. We anticipate full implementation of the aforementioned corrective actions and new processes to be completed by the end of FY 2024.

### **Timeline to Complete Implementing Corrective Actions.**

Processes have been established and communicated to MDH programs and are in process of being implemented. To ensure these processes are properly and consistently performed timely, adequate resources are required especially since resources are also needed for the clean up of long standing accruals.

To this end, MDH is working diligently to recruit to fill fiscal vacancies. Furthermore, MDH is working to procure resources from Certified Public Accountant (CPA) firms to assist with research and reconciliations to clean up long standing accruals as well as to provide assistance to ensure effective and efficient fiscal year closeout.

Related to the clean up of long standing accruals, some of the more complex programs (e.g., Medicaid) require additional research and analysis for which it is anticipated there will not be sufficient time to perform the adjusting entries necessary to resolve and clean up long standing positive and deficit balances by FY 2023 fiscal year close.

The full implementation of the corrective actions will take additional time and resources to fully implement. MDH anticipates additional analysis and reconciliation, as well as the implementation of new processes, to be completed by the end of FY 2024.

**Appendix A - Status of FY 2022 Federal Fund Revenue Accruals for 16 Audit Test Items**

Item Count	BUDGET UNIT	Unit Abbr.	PRGM CODE	DOCUMENT NUMBER	FUND	OBJ CODE	TRANS AMOUNT	Amount Recovered	Difference	Comments
1	Q0103	MCPA	T3CV	YNFCO022	5	8829	\$ 451,624,700	\$451,624,700	\$ 0	This is the COVID entry which is an adjustment moving the enhanced portion for the federal match from the normal PCAs to the COVID PCA.
2	Q0103	MCPA	T372	YNFCO022	5	8829	\$ 113,926,621.18	\$34,174,509.34	\$ 79,752,111.84	This is an active grant that has not been closed. The revenue accrual is based on an expenditure accrual to account for a prior year claims being processed in the current year. At this point in time not all estimated prior year claims have been realized. This sample represents an estimate of expenditures that will be paid in the following fiscal year for the service year closed. This is impacted by Enhanced Federal Medical Assistance Percentage.
3	M0102	DDA	P202	YNFCO022	5	8829	\$ 343,028,743.52	\$ 343,028,744	\$ 0	Revenue from FY12-FY16
4	M0102	DDA	P214	YNFCO022	5	8829	\$ 178,445,863.05	\$ 178,445,863	\$ 0	Revenue from FY12-FY16
5	M0102	DDA	P203	YNFCO022	5	8829	\$ 149,187,727.03	\$ 149,187,727	\$ 0	Revenue from FY12-FY16
6	M0102	DDA	P202	YNFCO022	5	8829	\$ 90,185,615.96	\$ 90,185,616	\$ 0	Revenue from FY20
7	M0102	DDA	P202	YNFCO022	5	8829	\$ 87,319,448.75	\$ 87,319,449	\$ 0	Revenue from FY17
8	M0102	DDA	P207	YNFCO022	5	8829	\$ 85,921,514.65	\$ 48,454,098	\$ 37,467,416.95	This is an active grant that has not been closed. FY22 Claims Providers have a two year window to submit claims (June 30, 2024), balance will be attained once one of the providers submits all their claims.
9	M0102	DDA	P202	YNFCO022	5	8829	\$ 84,652,850	\$ 84,652,850	\$ 0	FY19 revenue
10	M0102	DDA	P202	YNFCO022	5	8829	\$ 84,460,459	\$ 84,460,458	\$ 0	FY18 revenue
11	M0102	DDA	P202	YNFCO022	5	8829	\$ 81,337,816.90	\$ 74,958,238	\$ 6,379,578.84	This is an active grant that has not been closed. FY22 Claims Providers have a two year window to submit claims (June 30, 2024), balance will be attained once one of the providers submits all their claims. The balance is associated with one provider who has yet to submit their claims.

12	Q0110	MCPA	TA09	YNFCO022	5	8829	\$ 107,991,114.53	\$ 32,197,565.53	\$ 75,793,549.00	This is an active grant that has not been closed. The revenue accrual is based on an expenditure accrual to account for a prior year claims being processed in the current year. At this point in time not all estimated prior year claims have been realized. This sample represents an estimate of expenditures that will be paid in the following fiscal year for the service year closed.
13	Q0110	MCPA	TACV	YNFCO022	5	8829	\$ 83,713,747.71	\$ 83,713,747.71	\$ 0	This is the COVID entry which is an adjustment moving the enhanced portion for the federal match from the normal PCAs to the COVID PCA.
14	F0301	PHPA	N138	YNFCO022	5	8829	\$ 107,381,328.99	\$ 49,629,894.84	\$ 57,751,434.15	This is an active grant that has not been closed. The full grant balance was initially accrued. This grant supported lab contracts for COVID testing for K-12 education. Adjusting entries will be processed for the proper accrual in FY23 which is estimated to be \$615,470. The remaining balance will be adjusted to zero
15	F0601	OPR	W144	YNFCO022	5	8829	\$ 353,412,758.25	\$ 353,412,758.25	\$ 0	Journal adjustment completed that realigns the CRF revenue to be in line with actual expenditures by PCA.
							<b>\$ 2,402,590,308.50</b>	<b>\$2,145,446,217.72</b>	<b>\$ 257,144,090.78</b>	
16	Q0137	MCPA	T9D2	YNFCO022	5	8829	\$ 1,091,580,130.20	\$1,099,667,808.89	\$ (8,087,678.69)	This clearing account, which includes Medicaid drawdown activity, had a positive balance totaling \$8.1 million in unallocated revenue as of June 30, 2022. This is a holding account for revenue drawdowns received by the State Treasurer's Office. Due to the complexity of this account, we recognize additional analysis and reconciliation related to transactions and entries posted is necessary to fully allocate the balance in this clearing account. This work is anticipated to be completed by the end of calendar year 2023.

APPENDIX B - MDH Corrective Action Plan

Item	Description	Current Status	Timeline/Deadlines
<p>Establish Joint MDH/DBM Corrective Action Team</p>	<p>In response to the OLA Closeout Audit Finding MDH and DBM established the Joint Closeout Audit Corrective Action Team. Meetings began March 15, 2023 and are planned to continue through FY 2024 to monitor and discuss corrective actions to ensure the issues noted in the Closeout Audit finding are corrected. The MDH Corrective Action Plan was developed as a tool to track and monitor progress.</p>	<p>Fully Implemented</p>	<p>On-going until full resolution is achieved</p>
<p>\$3.5 Billion Federal Fund Accrual - 16 Test Items</p>	<p>Have programs research and identify where revenue had been obtained and process applicable correcting entries.</p> <p>For remaining accrual balances, determine amounts that represent actual or estimated expenditures still eligible for reimbursement.</p> <p>Conduct additional analysis of the entire Medicaid clearing account to allocate and zero out the account.</p>	<p>Partially Implemented, Appendix A includes a detailed report on the status of each of the 16 test items.</p>	<p>Full Implementation Target Date 12/31/23</p>
<p>Quarterly Reconciliations</p>	<p>MDH performs quarterly reconciliations for all programs to ensure that amounts requested from the federal government through the weekly drawdowns are agreed to actual expenditures. As a result, adjustments are made to subsequent reimbursement requests to account for the variances.</p> <p>Once FY23 fiscal closeout activities are completed, MDH will draft written procedures and controls to ensure federal funds are allocated properly and timely and subject to supervisory review and approval. These written procedures will capture the processes that have been implemented. MDH will continually test and perfect the procedures and controls.</p> <p>Develop a process for programs and central MDH finance staff to track the quarterly reconciliations to ensure they are completed timely.</p>	<p>Partially Implemented, reconciliations are currently being performed. Formal written documentation of the reconciliation process and tracking by central MDH Finance will be completed after FY23 Closing.</p>	<p>Full Implementation Target Date 12/31/23</p>



Interim Schedule G	<p>Issuance of interim active federal grant schedule that shows beginning balances, revenue obtained, expenditures and accounts receivable ending balances (Schedule G) on a quarterly basis. Programs and central MDH finance staff will use these schedules to review federal fund accounts receivable balances to ensure proper allocation of federal revenue and perform variance analysis that ultimately will help to ensure that year-end revenue accruals are properly supported and represent amounts eligible for reimbursement.</p> <p>Reconciliation of overall accounts receivable balances on the Schedule G with source systems (e.g., Maryland Department of Health Medicaid Management Information Systems, MMIS) will be part of this process.</p> <p>Monitoring of the overall accounts receivable balances will ensure drawdowns are complete and done timely.</p>	Partially Implemented. Interim Sch G's have been issued and reviewed for Month-End April and May. As of month end May, the overall A/R balance has been reduced from \$2.2B as of 6/30/22 and it is anticipated that the ending overall FY23 balance will be less than \$1B after final closing entries are posted.	Full Implementation Target Date 12/31/23
Timely Drawdown Process	The quarterly reconciliations and interim Schedule G procedures will be utilized to monitor and identify possible delays in drawdowns, or drawdowns that have not been processed.	Partially Implemented, quarterly reconciliations and interim Schedule G reviews are being performed. Formal written documentation of these processes will be completed after FY23 Closing.	Full Implementation Target Date 12/31/23
Revenue Reconciliation and Allocation/Matching Process & Clearing Account Analysis	<p>Procedures and controls will be developed to ensure all federal fund revenue received in clearing accounts are properly and timely allocated to the applicable federal grant.</p> <p>Controls will include oversight review to ensure adjustments are proper and made timely. The process will include ensuring clearing accounts have a positive (or zero) balance at year end.</p>	Partially Implemented, the clearing account analysis is on-going and will be completed by the end of fiscal year 2024.	Full Implementation Target Date 6/30/24
Review & Update of Chart of	Review and develop a coding schematic that	Partially Implemented,	Full Implementation Target Date:

Accounts and Federal Grant Coding Schematic	facilitates the tracking, reconciliation and matching of federal revenue and expenditures.	coding is updated each fiscal year. Final determinations on the chart of accounts will be made after FY23 Closing.	12/31/23
Long-Standing Accruals	Each program has been tasked to research and analyze federal revenue accruals that have carried the same accrual balance for one or more fiscal year end closeouts. These include reviewing accruals for accounts that had no activity entered (no revenue or expenditure entries were posted to the account) during FY22.	Partially Implemented. As of interim FY23 Sch G dated 7/5/23, 158 out of 906 lines for grant years 2021 and older have been fully reconciled and “zeroed out”.	Full Implementation Target Date: 12/31/23
Metrics	Other than what has been identified above, Central MDH Finance will evaluate other tools and ways to use available data to monitor processes and track progress. This includes monitoring and tracking Active & Inactive Sch G Line-Items.	Partially Implemented, a tracking spreadsheet has been developed and final metrics will be determined after FY23 Closing.	Full Implementation Target Date: 12/31/23
Resources	<p>MDH is actively recruiting and filling accounting and finance vacancies and will develop a dashboard or tracking mechanism to monitor progress.</p> <p>MDH is exploring options for additional resources to support the reconciliations as well as general accounting support. We are reviewing available statewide contracts. This includes working with the MDOT to utilize their existing accounting contract to support the reconciliations. These resources will assist with reconciliation of the data between FMIS, MMIS, PCIS2, any other related external systems.</p> <p>MDH is also exploring hiring recent retirees to support our fiscal staff with training and best practices.</p>	Partially Implemented, the procurement process is underway to utilize the existing MDOT contract, and it is anticipated that a contract will be executed within the next 30 days.	Target Start Date July 2023
SOPs & Flow Charts	MDH is working on reviewing and updating our SOPs and Flow Charts to document all of the procedural changes implemented and workflow.	Partially Implemented, formal SOP’s and Flowcharts will be	Full Implementation Target Date: 12/31/23

		prepared after FY23 Closing.	
Update the General Accounting Division (GAD)	Ongoing communications with GAD to update on our progress with corrective actions concerning the finding. Providing updates on FY23 Closeout.	Fully Implemented	On-going until full resolution is achieved