May 10, 2022

TO: Each Supervisor

FROM: Arlene Barrera, Auditor-Controller

SUBJECT: **DEPARTMENT OF PUBLIC HEALTH – SAGE SYSTEM REVIEW (REPORT #K20FT) - FIRST FOLLOW-UP REVIEW**

We have completed a follow-up review of the Department of Public Health (DPH or Department) Sage System Review dated March 19, 2021 (Report #K20FT). As summarized in Table 1, DPH fully implemented two recommendations and partially implemented seven recommendations to enhance their Sage System processes. The Department should fully implement the seven outstanding recommendations to strengthen controls and monitoring over Sage payment and Medi-Cal reimbursement processes.

Table 1 - Results of First Follow-up Review

PRIORITY RANKINGS	TOTAL RECOS	OUTSTANDING RECOMMENDATIONS		
		FULLY IMPLEMENTED	PARTIALLY IMPLEMENTED	NOT IMPLEMENTED
PRIORITY 1	3	1	2	0
PRIORITY 2	5	1	4	0
PRIORITY 3	1	0	1	0
TOTAL	9	2	7	0
			7	

For details of our review and the Department's corrective actions, see Attachment. We will follow up and report back on the six outstanding Priority 1 and 2 recommendations. The outstanding Priority 3 recommendation is exempt from future follow-up in accordance with our standard procedures.

We thank DPH management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Mike Pirolo at mpirolo@auditor.lacounty.gov.

AB:OV:MP:JO:rs

Attachment

c: Fesia A. Davenport, Chief Executive Officer
     Celia Zavala, Executive Officer, Board of Supervisors
     Barbara Ferrer, Ph.D., M.P.H., M.Ed., Director, Department of Public Health

LOS ANGELES COUNTY
AUDITOR-CONTROLLER

| **Oscar Valdez** | **Mike Pirolo** |
| CHIEF DEPUTY AUDITOR-CONTROLLER | DIVISION CHIEF |

AUDIT DIVISION   *Report #K22CL*

DEPARTMENT OF PUBLIC HEALTH – SAGE SYSTEM REVIEW (REPORT #K20FT) - FIRST FOLLOW-UP REVIEW

RECOMMENDATION	A-C COMMENTS
1 Priority 1 - Department of Public Health (DPH or Department) management improve Medi-Cal reimbursement processes by strengthening: a) Controls to ensure Medi-Cal eligible claims are filed timely with the State. b) Processes to ensure they receive accurate State reimbursement for Medi-Cal claims submitted, and document and retain evidence of this activity in a manner that a third-party can subsequently validate. **Original Issue/Impact:** In Fiscal Year (FY) 2019-20, DPH requested approximately $188 million in Medi-Cal reimbursements from the State for substance abuse services and approximately $42 million remained outstanding at the end of the FY. We noted DPH did not have a process to ensure they file Medi-Cal claims timely with the State and receive accurate and timely reimbursements. These control weaknesses increase the risk of revenue loss to the County.	**Recommendation Status: Partially Implemented** We confirmed the Department's Sage Policy and Procedure (P&P) Committee is working to improve Medi-Cal claims reimbursement processes by reviewing a draft of their revised Medi-Cal reimbursement procedures. DPH's draft procedures include improvements, such as specific dates for transmitting claims to the State and reconciling State payments and denied claims with Sage records. **However**, DPH's written procedures are still in draft phase and these improvements have not been implemented. The Department plans to fully implement this recommendation by September 2022.
2 Priority 1 - DPH management strengthen payment processes to ensure Sage payments are processed timely in the electronic Countywide Accounting and Purchasing System (eCAPS) by: a) Evaluating automated transfer of payments between Sage and eCAPS and maintaining documentation of payment reconciliations to support all payments are entered and issued. b) Including controls, such as time frame requirements and the escalation of payment delays to supervisors, to ensure provider payments are entered and issued timely in eCAPS. **Original Issue/Impact:** DPH paid its 80 substance abuse service providers approximately $243 million for FY 2019-20 through Sage and eCAPS. We noted	**Recommendation Status: Partially Implemented** a) Department management indicated they are currently investigating if they can automate the transfer of Sage payments to eCAPS. **However,** DPH could not provide documentation to support their progress. In addition, DPH did not provide documentation of their payment reconciliation process to support they ensure all payments are entered in eCAPS and issued to providers. b) We confirmed the Department's Sage P&P Committee is working to improve processes to ensure provider payments are entered and issued timely in eCAPS by reviewing a draft of updated written procedures. The draft procedures include checking for approved and denied claim information daily to ensure

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

RECOMMENDATION	A-C COMMENTS
DPH manually entered Sage payments into eCAPS, increasing the risk for errors, did not maintain adequate documentation of reconciliations to ensure all Sage payment information was accurately entered in eCAPS, and did not have processes to ensure Sage payments are entered and issued timely in eCAPS. Strengthening payment issuance processes increases the likelihood DPH will detect and resolve payment entry errors timely and reduces the risk of delayed provider payments or denied State Medi-Cal claims.	payments are made timely. **However,** the draft procedures do not include a process for escalation of payment delays and the procedure is not yet implemented.

The Department plans to fully implement this recommendation by September 2022. |
| **3**   <mark>**Priority 1**</mark> - DPH management:

a) Remind staff to properly complete the Internal Control Certification Program (ICCP) evaluation questionnaires to identify all internal control weaknesses, and develop related improvement plans to implement timely corrective action.
b) Redo the Sage ICCP and submit recertified ICCP forms to the Auditor-Controller's (A-C) Audit Division.

Original Issue/Impact: We noted internal control weaknesses, such as Issues No. 1 and 2, were not appropriately detected when DPH completed their FY 2019-20 ICCP. Properly completing the ICCP reduces the risk of not identifying and correcting process and control weaknesses. | **Recommendation Status: Implemented**

a) We confirmed DPH updated its written ICCP procedures, notified staff of the new procedures, and reminded staff of the importance of completing the ICCP properly.
b) We confirmed DPH properly completed the Sage ICCP by reviewing the recertified ICCP forms they summitted to A-C Audit Division. The ICCP appropriately included weaknesses and improvement plans for issues identified in our original review. |
| **4**   <mark>**Priority 2**</mark> - DPH management strengthen Sage payment processing controls by:

a) Evaluating enhancing Sage, and in the interim establishing manual processes, to flag and review the validity of potential duplicate payments.
b) Documenting their review and approval of changes to Sage payment approval controls and stored pay rates.

Original Issue/Impact: Sage did not have controls to reject or flag possible duplicate provider payments when their total amounts were within pre-approved payment limits. In addition, DPH did not document approvals for changes to System payment controls, such as stored pay rates and controls designed to ensure provider payments are valid. Strengthening Sage payment processes reduces the risk of duplicate provider payments going undetected, and for unauthorized changes to payment controls that could result in payment errors. | **Recommendation Status: Partially Implemented**

a) DPH management indicated their Sage P&P Committee is working to improve Sage payment processes to address this recommendation. **However,** DPH could not provide documentation to support their progress.
b) We confirmed DPH updated their payment process to require staff to document their review and approval of changes to System payment controls. We also confirmed staff adhered to the process by reviewing logs and staff signoffs to support their review, testing, and final approval to implement changes.

The Department plans to fully implement this recommendation by September 2022. |

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

RECOMMENDATION	A-C COMMENTS
5 **Priority 2** - DPH management strengthen the provider service request approval process by documenting their justification for any approval delays to improve management's ability to monitor and ensure provider service requests are authorized timely. **Original Issue/Impact:** DPH has a policy to approve provider service requests within five business days. However, they did not have a process to identify and resolve requests that were not approved timely and to document justification for approval delays. Improving this process will ensure providers can administer all appropriate patient treatment timely and do not modify or delay treatment due to authorization/payment uncertainty.	**Recommendation Status: Partially Implemented** We confirmed the Department updated their written procedures to require staff to document their communications with providers regarding service requests, including reasons for delays (e.g., missing documents, progress notes, justification for denial). **However**, DPH did not provide documentation to support the updated procedures have been implemented (e.g., examples of communication notes, delayed approval justifications). In addition, the Department has not updated their processes for management to periodically review and ensure provider requests are authorized timely and delays are properly justified. The Department plans to fully implement this recommendation by September 2022.
6 **Priority 2** - DPH management strengthen controls to ensure provider bills submitted in batch files are accounted for and processed timely. **Original Issue/Impact:** We noted 26% of DPH's 80 substance abuse service providers submit their bills in batch files to DPH servers, which are then manually loaded into Sage by DPH staff. However, batch files are automatically deleted if they are not processed within seven days, so providers need to notify DPH when they submit the files for DPH staff to check the server and process the files timely. Miscommunications and delays increase the risk bills could be deleted before being transferred to Sage for processing.	**Recommendation Status: Implemented** We confirmed DPH strengthened controls to ensure provider bills are processed timely by automating the process for loading provider batch files from DPH servers into Sage. DPH's new process includes an automated program that detects and loads provider batch files into Sage on a real-time basis. Sage also has controls to detect and reject duplicate provider batch files and to detect and reject potential individual duplicate claims within each batch file, as noted in Issue No. 4. We also confirmed DPH implemented this new process by reviewing DPH's updated batch workflow documents and examples of e-mails that are automatically sent to providers to confirm their billing files are loaded in Sage.
7 **Priority 2** - DPH management strengthen their periodic Sage user access review process by including DPH employees in their review, to ensure access remains consistent with their job duties. **Original Issue/Impact:** DPH had a process to periodically review substance abuse service providers' Sage access but did not have a process to periodically review their 514 employees' Sage access to ensure access remains appropriate and consistent with their job duties. This increases the risk employees with changes in job duties would have	**Recommendation Status: Partially Implemented** We reviewed the Department's updated policy for periodic Sage user access reviews and verified it requires reviewing DPH employees' System access. **However,** the Department did not maintain documentation to support they reviewed DPH employees' access during the most recent user access review. We noted the most recent access review only included a review of access for substance abuse service providers.

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.

RECOMMENDATION	A-C COMMENTS
inappropriate System access go undetected, which could lead to unauthorized exposure of protected health information.	The Department plans to fully implement this recommendation by September 2022.
8 <mark>Priority 2</mark> - DPH management strengthen ongoing monitoring processes to include: a) Examination of process/control activities, such as a review of an adequate number of transactions on a regular basis to ensure adherence to County IT rules. b) Documenting the monitoring activity and retaining evidence so it can be subsequently validated. c) Elevating material exceptions to management on a timely basis to ensure awareness of relative control risk and to ensure appropriate corrective actions are implemented. **Original Issue/Impact:** DPH did not have adequate self-monitoring processes in place to ensure Sage processes and controls were working as intended (e.g., System access, payment processing, Medi-Cal reimbursements). This prevents DPH management from ensuring critical Sage internal control objectives are being achieved and increases the risk Sage payment controls may not operate as intended, which could lead to inaccurate or untimely payments.	**Recommendation Status: Partially Implemented** We confirmed the Department developed a new policy for management monitoring of Sage internal controls. **However,** the policy does not mention specific areas that will be monitored and DPH has not implemented these management monitoring activities. The Department plans to fully implement this recommendation by September 2022.
9 <mark>Priority 3</mark> - DPH management ensure written standards and procedures guide supervisors and staff in performing their duties for all Sage processes. **Original Issue/Impact:** DPH did not have adequate written standards and procedures to guide staff in performing their duties for several Sage processes. This increases the risk staff will perform task incorrectly or inconsistently and can lead to payment errors or unauthorized exposure of sensitive information, including protected health information.	**Recommendation Status: Partially Implemented** We confirmed the Department developed and updated written policies for Sage user access, provider batch file billing, and management monitoring processes. However, DPH has not finalized new or updated written procedures for the following areas: • Medi-Cal reimbursements • Sage service pre-authorizations • Sage payment processing The Department plans to fully implement this recommendation by September 2022.

We conducted our review in conformance with the International Standards for the Professional Practice of Internal Auditing. For more information on our auditing process, including recommendation priority rankings, the follow-up process, and management's responsibility for internal controls, visit auditor.lacounty.gov/audit-process-information.

Priority Ranking: Recommendations are ranked from Priority 1 to 3 based on the potential seriousness and likelihood of negative impact on the Agency's operations if corrective action is not taken.