

**An Audit of  
Milwaukee County  
Department on Aging  
Care Management Organization  
2003 Operating Deficit**

**December 2004**

**Committee on Finance and Audit**

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December 6, 2004

To the Honorable Chairman  
of the Board of Supervisors  
of the County of Milwaukee

We have completed an audit of the Milwaukee County Department on Aging Care Management Organization 2003 Operating Deficit. This report discusses the factors that led to the deficit, describes the current state of CMO operations, and contains recommendations for improvement.

A response from the Director of the Department on Aging is included as **Exhibit 4**. We appreciate the cooperation extended by the Department on Aging and its staff during the audit.

Please refer this report to the Committee on Finance and Audit.

Jerome J. Heer  
Director of Audits

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors  
Scott Walker, County Executive  
Linda Seemeyer, Director, Department of Administrative Services  
Stephanie Sue Stein, Director, Department on Aging  
Terry Cooley, Chief of Staff, County Board Staff  
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# An Audit of Milwaukee County Department on Aging Care Management Organization 2003 Operating Deficit

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## Summary

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The Milwaukee County Department on Aging (MCDA) is a Federal/State designated Area Agency on Aging for Milwaukee County. MCDA provides a single entry point for older adults and their caregivers who are in need of elderly service information and assistance throughout Milwaukee County. Services provided by MCDA are designed to provide an appropriate mix of community-based care and direct services to prevent the inappropriate and costly institutionalization of older adults. Since 2000, the Department on Aging has been the lead agency for Milwaukee County under the State of Wisconsin's Family Care Initiative. The goal of Family Care is to assist program members to maintain their independence and quality of life, while recognizing the need for support to remain independent. To achieve this goal, the program offers a myriad of services such as supportive home care, durable medical equipment and skilled nursing home care.

There are four key entities involved in the process of determining eligibility and enrolling members in the Family Care program:

- **The Resource Center** is the point of entry for Family Care Services. It provides information and assistance regarding Family Care and other services, and determines functional eligibility (level of care needed) for Family Care.
- **The Independent Enrollment Consultant** contracts with the State to provide integrity to the overall eligibility and enrollment process by ensuring objective and comprehensive information regarding the Family Care program, including an explanation of fair hearing and grievance rights.
- **The Economic Support Unit (ESU)** of the Milwaukee County Department of Health and Human Services determines whether prospective members meet the non-financial and financial eligibility requirements for Family Care.
- **The Care Maintenance Organization (CMO)** is responsible for developing comprehensive assessments and care plans for each Family Care member and coordinates the provision of long-term care services. The CMO provides case management through a number of contracted Care Management Units (CMU) and various Family Care services are offered through an extensive network of contracted providers.

Due to a \$5.6 million operating deficit experienced by the Milwaukee County CMO for 2003 and other related concerns, the County Board adopted a resolution [File No. 04-12(a)(a)] in May 2004, authorizing and directing the Department of Audit to "initiate a formal audit of the Department on Aging, including but not limited to the Family Care program, to determine what factors led to the deficit and to recommend what steps should be taken to improve the operation of the department."

One particular source of concern among County Board members regarding the \$5.6 million deficit experienced by the Milwaukee County CMO in 2003 was the timing of the Department on Aging's notification to the Finance and Audit Committee that a deficit was likely. The Department on Aging Director informed the Committee by memo on April 9, 2004 that it anticipated a revenue shortfall of \$1.2 million (later revised to the \$5.6 million operating deficit reported in the County's audited financial statements). However, there were indications of fiscal problems regarding the Family Care program much earlier than that formal notification. Correspondence from the State shows a clear record of concern expressed as far back as the Fall of 2002 regarding several of the issues outlined in this audit report. Further, in April 2003, during the closing of the County's financial books for 2002, the Department on Aging Director requested formal approval from the State to access nearly \$1.3 million in a risk reserve to cover operating losses for the year ended 2002. Additionally, in response to ongoing concerns by the State, the CMO hired a consultant to perform a fiscal assessment of its staff and operations. The final report, issued in November 2003, identified numerous problems and provided recommendations designed to address deficiencies in the CMO's financial reporting capability, staff skill mix and fiscal reporting lines. Neither the State concerns, the use of a risk reserve fund to cover prior year losses, nor the fiscal issues identified by the consultant hired by the CMO were shared with the Milwaukee County Board of Supervisors until the aftermath of the April 9, 2004 disclosure of a deficit for 2003 CMO operations.

### **Causes of the 2003 CMO Deficit**

Problems that led to the 2003 CMO deficit in Milwaukee County are numerous and complex, and in many instances, inter-related. However, they can generally be associated with two major issue areas:

- Member eligibility and enrollment issues, and
- Financial reporting and fiscal accountability issues.

#### **Member Eligibility and Enrollment Issues**

Several inter-related problems associated with proper Family Care eligibility determinations and enrollment status contributed to the \$5.6 million deficit experienced by the CMO in 2003. Key among these problems were:

- The provision of services to elderly individuals that were later determined to be ineligible for the Family Care program and for which no State payments could be collected.
- Failure to perform annual re-certifications within required timeframes, as well as timely disenrollment of members whose eligibility has expired, resulting in the loss of additional State payments. The ESU is responsible for performing the re-certifications.

- Inaccurate classifications of Family Care members' appropriate level of care, which resulted in State overpayments that had to be returned.

Based on discussions with CMO, ESU and Resource Center management and staff, as well as State representatives; a general review of tracking systems, reports and other documentation; and observation of the regular and frequent interaction between these entities, we believe significant progress has been made in addressing problems associated with Family Care eligibility/enrollment issues.

However, additional progress is needed to avoid the negative fiscal effects of errors in this important aspect of Family Care administration. Efforts to monitor corrective measures implemented, as well as to continue identifying and resolving problems, is an ongoing process. One factor that should improve performance in the eligibility/enrollment and re-certification areas is the dedication of additional staff resources to the ESU, as noted in the 2005 Adopted Budget. The addition of four new positions and re-deployment of four existing positions will result in staffing for two nine-person units, with supervision and clerical support, as opposed to one 12-person unit. MCDA will be cross-charged approximately \$1.2 million for that portion of the additional staff costs not covered by State funding.

In a perfect world, there would be better integration between the Milwaukee County CMO's MIDAS (internal management information) system and the State's Long Term Care Functional Screen, CARES (enrollment) and MMIS (payment) systems. Discussions are underway for possible improvements towards that end, but it is unrealistic to expect significant improvement in the short term. Therefore, it is imperative that MCDA continue to progress in implementing a systems approach to addressing problems involving effective multi-party communications, accurate manual transfer of data among multiple systems, and monitoring performance of staff involved in these processes. Over the long run, management should work with the State to pursue better use of computer technology and the State systems to reduce the amount of manual interventions and reconciliations for tracking purposes.

### **Financial Reporting and Fiscal Accountability Issues**

Key among the financial reporting/fiscal accountability problems were:

- Inaccurate financial statement reporting. This was reflective of a lack of processes to accurately capture, analyze, report and monitor fiscal data and, consequently, the inability to accurately determine current fiscal status. These deficiencies contributed to the Milwaukee County CMO operating for more than 3½ years before meeting essential reporting requirements established by the State. One key process that was lacking was a reconciliation of CMO internal financial

information, including Third Party Administrator payments and member billing data, to the County's official financial information system, Advantage.

- Inadequate fiscal staffing and expertise. The State's level of concern regarding the Milwaukee County CMO's ability to provide accurate financial data was such that it amended its contract effective January 2004 to require the addition of a Chief Financial Officer.

The consequences of this state of fiscal affairs include:

- The CMO was unable to identify the fiscal implications of the member eligibility/enrollment problems discussed in **Section 2** of this report.
- It is likely that the \$5.6 million deficit recognized in 2003 is at least partially comprised of prior year shortfalls, but the lack of accurate financial statements in prior years makes it difficult to quantify this problem.
- The lack of accurate cost information made it virtually impossible for the CMO to make valid trend projections, detect potentially inappropriate payments or monitor activity for potential cost efficiencies.
- Unable to produce accurate cost information, the Milwaukee County CMO was never able to make a persuasive case to the State that the capitated rate structure adopted by the Family Care program was insufficient to cover Milwaukee County CMO costs. While other factors are involved in setting Family Care rates, this issue was cited by the State as a major source of concern.

Several basic fiscal management issues similar to those plaguing the CMO were identified as problematic in an October 2000 Department of Audit report, *Audit of Department on Aging Fiscal Oversight*.

Discussions with State officials, as well as our own observations of CMO operations and limited tests of financial statements and supporting documentation, indicate that MCDA has made progress in acknowledging, identifying and correcting problems related to fiscal accountability.

However, continued improvement is necessary. For instance, formal reconciliations are not performed on a consistent and timely basis. Rather, the differences are simply 'plugged' into the Financial Report to the State without analysis. Until a complete and accurate reconciliation is performed on a regular basis between Advantage and the CMO's financial statements, errors and omissions may go undetected. An example of such an error recently surfaced related to Member Services costs. In reviewing CMO costs, the Department of Administrative Services discovered that Member Services costs were erroneously reduced by \$1.1 million to reflect internal case management costs. However, these same costs were already netted out of the Member Services costs reported in the CMO financial statements. A detailed reconciliation to the County's Advantage system, where wire transfer payments for Member Services costs are reflected, likely would have prevented this error.

MCDA has noted that there are significant timing differences between its internal MIDAS system and Advantage, and that backlogs in posting transactions to Advantage make a reconciliation between the two systems problematic. We acknowledge these points and concur that achievement of timely, accurate reconciliations of critical CMO financial data may require additional staff resources and training.

### **Increased Capitation Rates**

Perhaps the most important improvement identified by the State regarding the Milwaukee County CMO's financial reporting is in the area of provider cost reporting. The improved cost data was a key factor in the State's decision to revise its capitated rate structure, resulting in a 13.5% increase for the most prevalent rate applicable to Family Care members served by the Milwaukee County CMO, beginning in 2005. This should significantly enhance the CMO's fiscal position in 2005.

### **Overall Conclusions**

- Successful administration of the Family Care program in Milwaukee County is a complex task requiring an effective collaboration between three County entities (Resource Center, CMO and ESU) and the State of Wisconsin. Additional challenges are presented with the assignment of fiscal oversight to a fourth County entity, the Department of Administrative Services.
- By all accounts, the Milwaukee County Department on Aging has been tremendously successful in building and maintaining a structure that provides quality long-term supportive care services to the elderly.
- MCDA has not been effective in achieving similar success in building and maintaining the appropriate processes and controls to adequately administer the Family Care program in a fiscally sound manner. Despite progress in this area, the recent surfacing of a \$1.1 million error in the CMO's financial statements indicates continued need for improvement.
- Ultimately, fiscal accountability is essential to sustain a program of quality long-term supportive care services.
- Progress towards acknowledging, identifying and addressing problems that led to a Milwaukee County CMO operating deficit of \$5.6 million has been significant, but not complete. While important improvements have been made in the two major problem areas—eligibility/enrollment and financial reporting/fiscal accountability—reform efforts continue to be affected by:
  - Backlogs in key areas such as eligibility determinations, re-certifications and posting of financial transactions. The additional ESU staff budgeted for 2005 may provide relief in some of these areas.
  - An overall management approach that has struggled to address both immediate and long-term problems simultaneously. The addition of a full-time Chief Operating Officer could help in this regard.
  - Continued strained relations with State officials. Acknowledged by the MCDA Director in her April 9, 2004 deficit notification memo to the County Board Finance and Audit Committee, recent correspondence suggests additional improvement is needed in this area.

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## **Background**

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The Milwaukee County Department on Aging (MCDA) is a Federal/State designated Area Agency on Aging for Milwaukee County. The Department's responsibilities are outlined in Chapter 53 of the General Ordinances of Milwaukee County and include planning, developing, providing, purchasing and coordinating services for the County's older adult population. MCDA reports directly to the County Executive and provides staff support to the Milwaukee County Commission on Aging.

MCDA provides a single entry point for older adults and their caregivers who are in need of elderly service information and assistance throughout Milwaukee County. Services provided by MCDA are designed to provide an appropriate mix of community-based care and direct services to prevent the inappropriate and costly institutionalization of older adults. Since 2000, the Department on Aging has been the lead agency for Milwaukee County under the State of Wisconsin's Family Care Initiative. Family Care replaced, on a pilot basis, the State's numerous long-term care programs with a single, integrated long-term care entitlement program in Milwaukee County and a limited number of counties in other parts of the state. The 2004 Adopted Budget for MCDA totaled \$135.7 million in expenditures, including direct tax levy of \$2.7 million, and included 184 full time equivalent funded positions. Family Care operations and related administration accounted for approximately 95% of MCDA's total budget and 137 full time equivalent funded positions.

### **Family Care Basics**

Family Care is a long-term managed care program operated by the MCDA Care Management Organization (CMO) under contract with the Wisconsin Department of Health and Family Services (State). In Milwaukee County, the program is designed to improve the quality of life for elderly persons by providing services in the Family Care benefit package. In other pilot counties, the program is also designed to serve individuals age 18 or older with physical or developmental disabilities.

The goal of Family Care is to assist program members to maintain their independence and quality of life, while recognizing the need for support to remain independent. To achieve this goal, the program offers a myriad of services such as supportive home care, durable medical equipment and skilled nursing home care.

Family Care members obtain services through an extensive provider network established and maintained by the CMO. A Milwaukee County CMO organization chart is presented as **Exhibit 2**. Using inter-disciplinary teams of professionals, the CMO oversees the provision of a comprehensive package of service benefits in accordance with an individualized service plan that is developed with the member and is centered on the member's specific needs. Services are authorized by the CMO's Care Management Units. As a member receives services, providers submit claims through Medicare or through the CMO's Third Party Administrator for claims adjudication and payment. The Milwaukee County CMO is projected to serve 5,800 members in 2004 with budgeted expenditures of \$118.7 million. State payments for Family Care services are made based on a per member, per month capitated rate structure.

### **Key Entities**

There are four key entities involved in the process of determining eligibility and enrolling members in the Family Care program. The four entities are:

- Resource Center;
- Independent Enrollment Consultant;
- Economic Support Unit; and
- Care Management Organization.

### Resource Center

The Resource Center is the point of entry for Family Care Services. It provides information and assistance regarding Family Care and other services, and determines functional eligibility (level of care needed) for Family Care. Information obtained through an initial referral and a home visit with the prospective member is entered into the State's automated Long Term Care Functional Screen to determine if the individual meets the functional eligibility requirements and, if so, identifies the appropriate level of care classification. This level of care classification is important because it establishes the monthly rate at which the CMO will be paid by the State for this member. MCDA performs the Resource Center function for the Family Care program in Milwaukee County under separate contract with the State.

### Independent Enrollment Consultant

The Independent Enrollment Consultant contracts with the State to provide members with information about Family Care and other service options (e.g., standard Medicaid medical services) prior to enrollment. This function is designed to provide integrity to the overall eligibility and enrollment process by ensuring objective and comprehensive information regarding available long-term care services is provided. Independent Enrollment Consultants verify prospective members'

understanding of the information provided, explain fair hearing and grievance rights under the Family Care program, and assist in selecting an enrollment date.

#### Economic Support Unit

The Economic Support Unit (ESU) of the Milwaukee County Department of Health and Human Services determines whether prospective members meet the non-financial and financial eligibility requirements for Family Care. The ESU uses the State's automated Client Assistance for Re-employment and Economic Support (CARES) system in making the eligibility determinations. Each determination is based on information obtained from the Resource Center and from the prospective member or prospective member's representative. ESU workers are responsible for ensuring that functional (level of care), non-financial and financial eligibility criteria have been met through CARES and that appropriate information has been verified. ESU workers also validate that a projected enrollment date has been selected by the Independent Enrollment Consultant, and if the prospective member chooses to enroll in Family Care, the ESU worker later confirms the enrollment in CARES so that Family Care services may begin.

#### Care Management Organization

The CMO is responsible for developing comprehensive assessments and care plans for each Family Care member and coordinates the provision of long-term care services. The CMO provides case management through a number of contracted Care Management Units (CMU) and various Family Care services are offered through an extensive network of contracted providers. The CMO and its contracted CMUs are responsible for reporting any financial or non-financial changes in condition of Family Care members to the ESU in a timely manner.

A high-level illustration of the interaction between these four entities is presented as **Exhibit 3**.

### **2003 Operating Deficit**

Due to a \$5.6 million operating deficit experienced by the Milwaukee County CMO for 2003 and other related concerns, the County Board adopted a resolution [File No. 04-12(a)(a)] in May 2004, authorizing and directing the Department of Audit to "initiate a formal audit of the Department on Aging, including but not limited to the Family Care program, to determine what factors led to the deficit and to recommend what steps should be taken to improve the operation of the department."

### Related Action

In the aftermath of the April 2004 disclosure of the CMO's 2003 operating deficit, the Milwaukee County Executive placed oversight responsibility for Department on Aging and CMO fiscal affairs with the Department of Administrative Services.

In addition, the Resource Center Oversight Committee of the Milwaukee County Commission on Aging has formed a subcommittee to "understand the Family Care Resource Center Action Plan process and find out why and how funding has been lost." The subcommittee is charged to do everything possible to ensure that future funding losses and funding gaps do not occur. Upon completion, the subcommittee will issue its final report to the Resource Center Oversight Committee, the Commission on Aging, the County Board and State agencies responsible for Family Care and Economic Support as well as other appropriate agencies and individuals.

In November of this year, as a result of a competitive proposal process, the State of Wisconsin Department of Health and Family Services indicated its intent to award Milwaukee County a contract for the provision of CMO services for 2005, renewable at the option of both parties annually for four subsequent years. It is noteworthy that the State has consistently praised the Milwaukee County Department on Aging for the quality of services rendered via the Family Care program. It is also important to note that waiting lists for services, with some 2,800 names in 1999, were completely eliminated with the transition to the Family Care program in Milwaukee County. Currently, the Milwaukee County CMO has an enrollment of approximately 5,600.

This report discusses the factors that led to the deficit, describes the current state of CMO operations, and contains recommendations for improvement.

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## Section 1: Causes of the 2003 CMO Deficit

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Problems that led to the 2003 CMO deficit in Milwaukee County are numerous and complex, and in many instances, inter-related. However, they can generally be associated with two major issue areas:

- Member eligibility and enrollment issues, and
- Financial reporting and fiscal accountability issues.

In **Section 1** of the audit report, we present a brief description of these major problem areas and the related fiscal implications. In **Sections 2** and **3** of the report, we discuss corrective measures undertaken by the Department on Aging and present our assessment of progress towards addressing the core problems based on our review. **Section 4** of the report presents our overall conclusions.

### Member Eligibility and Enrollment

**Several inter-related problems associated with proper Family Care eligibility determinations and enrollment status contributed to the \$5.6 million deficit experienced by the CMO in 2003.**

Several inter-related problems associated with proper Family Care eligibility determinations and enrollment status contributed to the \$5.6 million deficit experienced by the CMO in 2003. Key among these problems were:

- The provision of services to elderly individuals that were later determined to be ineligible for the Family Care program and for which no State payments could be collected.
- Failure to perform annual re-certifications within required timeframes, as well as timely dis-enrollment of members whose eligibility has expired, resulting in the loss of additional State payments. The Economic Support Unit of the Milwaukee County Department of Health and Human Services is responsible for performing the re-certifications.
- Inaccurate classifications of Family Care members' appropriate level of care, which resulted in State overpayments that had to be returned.

**In addition, significant problems existed in the area of financial reporting and fiscal accountability.**

In addition, significant problems existed in the area of financial reporting and fiscal accountability.

### **Financial Reporting and Fiscal Accountability**

Several inter-related problems associated with fundamental financial reporting and fiscal accountability contributed to an environment in which the CMO could not accurately ascertain its true fiscal position, was unable to identify the fiscal implications of the member eligibility/enrollment problems identified above, and was out of compliance with reporting requirements contained in its State Family Care contract. An important consequence of the CMO's financial reporting difficulties was its inability to make a persuasive case to the State that the capitated rates paid under the Family Care program were insufficient to cover Milwaukee County CMO costs, as the Department on Aging frequently maintained. MCDA also notes that there are other factors in the State's rate setting methodology that adversely affected the Milwaukee County CMO's rates.

Key among the financial reporting/fiscal accountability problems were:

- Inaccurate financial statement reporting. This was reflective of a lack of processes to accurately capture, analyze, report and monitor fiscal data and, consequently, the inability to accurately determine current fiscal status. These deficiencies contributed to the Milwaukee County CMO operating for more than 3½ years before meeting essential reporting requirements established by the State. One key process that was lacking was a reconciliation of CMO internal financial information, including Third Party Administrator payments and member billing data, to the County's official financial information system, Advantage. A detailed reconciliation was never performed to ensure the accuracy of the CMO's financial data, as well as to ensure that CMO activity was properly recorded in the County's financial statements.
- Inadequate fiscal staffing and expertise. The State's level of concern regarding the Milwaukee County CMO's ability to provide accurate financial data was such that it amended its

contract effective January 2004 to require the addition of a Chief Financial Officer.

### **Timeliness of Notification**

**One particular source of concern regarding the \$5.6 million deficit was the timing of the Department on Aging's notification to the Finance and Audit Committee that a deficit was likely.**

One particular source of concern among County Board members regarding the \$5.6 million deficit experienced by the Milwaukee County CMO in 2003 was the timing of the Department on Aging's notification to the Finance and Audit Committee that a deficit was likely. The Department on Aging Director informed the Committee by memo on April 9, 2004 that it anticipated a revenue shortfall of \$1.2 million (later revised to the \$5.6 million operating deficit reported in the County's audited financial statements). In that memo, the director provided a brief explanation of the anticipated shortfall as projected at that time, and acknowledged:

"Three factors are evident in this analysis:

- Inadequate 2003 fiscal staffing and expertise to fully analyze and coordinate the varied reporting systems necessary to track expenditures and revenue;
- Lack of system interface with the Income Maintenance Division of the [State] Department of Health and Family Services; and
- Relationship and expectation issues with the staff of the State Department of Health and Family Services."

**Correspondence from the State shows a clear record of concern expressed as far back as the Fall of 2002 regarding several of the issues outlined in this audit report.**

Correspondence from the State shows a clear record of concern expressed as far back as the Fall of 2002 regarding several of the issues outlined in this audit report. Further, in April 2003, during the closing of the County's financial books for 2002, the Department on Aging Director requested formal approval from the State to access nearly \$1.3 million in a risk reserve to cover operating losses for the year ended 2002. While giving formal approval for use of the risk reserve funds, the State Division of Disability and Elder Services included in its April 22, 2003 letter of approval the following admonition:

“We are concerned that this action is necessary due to a cumulative series of operational issues, and therefore believe it is necessary that you develop a corrective action plan to ensure financial stability can be restored.”

According to the MCDA Director, the CMO anticipated receiving additional State funding for Community Options Program Waiver participants transitioning into Family Care, but such funding was not realized.

Specific elements required by the State to be detailed in a corrective action plan from the Milwaukee County CMO included cash flow projections for 2003 and 2004 that reflected a plan to replenish the reserve fund.

Section 56.02(1) of the General Ordinances of Milwaukee County states that:

“Each person in charge of any county office, department, agency, or any nondepartmental account shall submit a written report to the county executive, the committee on finance and audit of the county board and the department of administration whenever such person has reason to know or believe that a deficit of seventy-five thousand dollars (\$75,000) or more in any revenue account will occur for the division of county government under the supervision of that person. The report shall be submitted as soon as practicable, but shall not exceed ten (10) working days from the earliest date that such person first has reason to believe or know of the reduction of anticipated revenue. Such report shall include the reasons for the anticipated revenue deficit, as well as a recommended plan of action or alternatives to offset such deficit.”

**Despite knowledge of a \$1.3 million shortfall in 2002, the Department on Aging never provided the notice required under s. 56.02(1) of the ordinances.**

Despite knowledge of a \$1.3 million shortfall in 2002 that precipitated the request from the Department on Aging Director for State approval to access risk reserve funds, the Department on Aging never provided the notice required under s. 56.02(1) of the ordinances.

Further, in response to ongoing concerns by the State and continued discussion of issues related to the corrective action

plan required by the State in its April 2003 authorization letter, the CMO hired a consultant to perform a fiscal assessment of its staff and operations. The final report, issued in November 2003, identified many of the problems outlined above and provided numerous recommendations designed to address deficiencies noted in the CMO's financial reporting capability, staff skill mix and fiscal reporting lines.

Neither the State concerns nor those identified by the consultant hired by the CMO were shared with the Milwaukee County Board of Supervisors until the aftermath of the April 9, 2004 disclosure of a deficit for 2003 CMO operations. Since that disclosure, the County Executive has placed fiscal oversight responsibilities for the Department on Aging and the CMO with the Department of Administrative Services.

To keep policy makers apprised of potential financial difficulties that can affect the overall fiscal health of the County, resulting in repercussions for other Milwaukee County departments, we recommend that Department on Aging management:

- 1. Comply with both the letter and spirit of s. 56.02(1) of the County Ordinances and make timely notification of suspected potential operating deficits. The intent of the ordinance should be construed to include notification when there is an inability to determine actual financial status of a major program.*

**According to State DHFS officials, the year-end 2002 Single Audit did not reconcile to the County's financial ledger. The State has subsequently revised its audit guidelines to provide more specific direction for auditors in reviewing and reconciling Family Care program expenditures.**

#### Role of External Auditor

Under contract with the Milwaukee County Department of Audit, the public accounting firm of Virchow, Krause, LLP is responsible for auditing the financial statements of Milwaukee County, including MCDA. The separate audits required by the State of Wisconsin for all State grants (the 'Single Audit'), including Family Care, is sub-contracted to the firm of Coleman & Williams, LTD. According to State DHFS officials, the year-end 2002 Single Audit did not reconcile to the County's financial ledger. Coleman & Williams has indicated that it performed all of

the work required under State audit guidelines. The State has subsequently revised the guidelines to provide more specific direction for auditors in reviewing and reconciling Family Care program expenditures. A Technical Advisor for DHFS stated that she had reviewed the external auditors' workpapers for the 2003 year-end Single Audit and said she believes the auditors did a good job.

### **Current Status**

As noted in the **Background** section of this report, the State has indicated its intent to award the Milwaukee County Department on Aging a contract to fulfill the Care Management Organization function for the period 2005—2009, subject to annual renewals. The remainder of this audit report presents our findings regarding the current status of the Department on Aging's efforts to address the problems outlined in this section, as well as conclusions as to any additional progress which may be necessary.

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## Section 2: Member Eligibility and Enrollment

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In **Section 1** of this report, we identified three key problems in the area of Family Care member eligibility determination and enrollment status that contributed to the Milwaukee County CMO's 2003 operating deficit of \$5.6 million. In this section of the report, we discuss progress made to date in addressing each of the three areas.

### Provision of Services to Ineligible Individuals

As noted in the **Background** section of this report, proper eligibility determination and enrollment of eligible individuals in the Family Care program requires the coordinated effort of staff from the Resource Center (point of entry), an Independent Enrollment Consultant, the CMO and the Economic Support Unit at the County DHHS.

**In addition to designating a Family Care Access Manager, as required by the State, the Resource Center has implemented two main management controls to monitor the progress of Family Care applicants and to ensure that only those eligible for Family Care are enrolled into the CMO.**

In addition to designating a Family Care Access Manager, as required by the State, the Resource Center has implemented two main management controls to monitor the progress of Family Care applicants and to ensure that only those eligible for Family Care are enrolled into the CMO:

- An 'Intake Tracking Report' generated from MIDAS that tracks referrals coming into the Resource Center (cases will remain of this report until closed out in MIDAS).
- An 'Applications Sent to ESS' report is generated from MIDAS to track cases sent from the Resource Center to the ESU.

During our review, we attempted to validate the effectiveness of these two reports by interviewing the Family Care Access Manager, the Economic Support Unit Manager, the State Technical Advisor for eligibility and enrollment issues, and by reviewing information obtained from MIDAS. In addition, we reviewed monthly discrepancy reports that list Family Care

member cases whose eligibility data on the CMO's internal MIDAS system do not agree with the State's MMIS (payment) system.

According to Resource Center supervisors, the first two reports are used to track eligibility processing that occurs up to point individuals are enrolled in the CMO. As an added control, the CMO generates the discrepancy reports to identify problems after enrollment, including those associated with the re-certification process, which we will discuss later in this report.

A manually maintained spreadsheet was designed as an ongoing tool to track discrepancies requiring follow-up and their resolution. While there are signs that the spreadsheet is being actively managed, there are also indications that the manner in which it is used is still in the process of refinement. For instance, it wasn't until recently that CMO management began attempting to assign risk factors in addressing problems on the discrepancy tracking report.

**There are other indications of progress in addressing the eligibility issue.**

There are other indications of progress in addressing the eligibility issue. According to a State Technical Advisor, Milwaukee County is doing a much better job of not serving people before they are eligible. Lack of attention to State enrollment reports was cited as a major reason for this particular problem. The CMO's review of the discrepancy reports, while in need of improvement as just described, is a critical step in managing this problem.

#### Recent State Review

**The results of the State review were mixed, showed improvements in some areas, but continued problems in others.**

In a letter to MCDA dated November 10, 2004, a State Technical Advisor presented data on the Resource Center's adherence to required timeframes for Family Care eligibility determinations. The results were mixed, showed improvements in some areas, but continued problems in others. According to the State's monitoring report:

“A positive finding is that the “backlog” of individuals waiting for a determination of eligibility for longer than 60 days has been greatly reduced. However, there continues to be a pattern of some individuals “falling through the cracks” and waiting extensive periods of time prior to receiving a determination decision. The most extreme example identified was an application pending since February 2004.

The goal of processing Family Care/Medicaid applications within a 30-day timeline was met and maintained for Type 1 applicants (persons already eligible for Medicaid when they request Family Care) for a period of four consecutive months, but fell to 75% in August. Preliminary results for the September random sample indicate that the 30-day timeline has again been met in all instances.

Compliance with the 30-day timeline for processing applications has not been met for Type 2 applicants (those persons requesting Medicaid as a new applicant) in any of the months for which random sample reviews have been conducted. The initial compliance rate was 0%, and reached its highest compliance rate in May at 44%, but then regressed to 14% for two months, and was 33% in August. We strongly encourage you to prioritize attention to improving the processing timeline for Type 2 cases

After file reviews of the cases chosen in recent random samples, four elements have been identified as primary causes for delays in processing Type 2 cases:

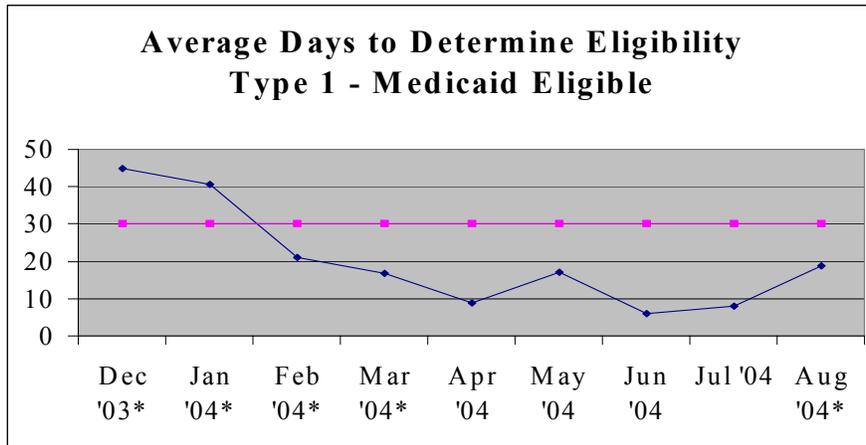
- Incorrect application of deadline extension policy by Economic Support staff;
- Lack of communication of case status from ES [Economic Support Unit] to RC [Resource Center];
- Misdirected verification materials resulting in late delivery to ES. This is demonstrated by copies of verification materials being present in RC file but not in ES file. It is unclear whether the RC received the materials and then did not pass them on, or if they were misdirected once ES received them. We know that the verification request notice from CARES instructs individuals to send information to the Vliet Street ES address, and that misdirection of materials or untimely delivery to Galena Street staff may also be contributing to this problem; and
- Untimely communication of enrollment date by RC to ES. It is difficult to document the source of this breakdown since the RC says they sent the enrollment date but ES says they did not receive it.”

**Table 1**  
**Percentage of Type 1 and Type 2 Cases Determined within 30 Days**

	<u>Dec. 2003</u>	<u>Jan. 2004</u>	<u>Feb. 2004</u>	<u>March 2004</u>	<u>April 2004</u>	<u>May 2004</u>	<u>June 2004</u>	<u>July 2004</u>	<u>Aug. 2004</u>
Type 1	0%	0%	75%	75%	100%	100%	100%	100%	75%
Type 2	0%	11%	40%	25%	33%	44%	14%	14%	33%

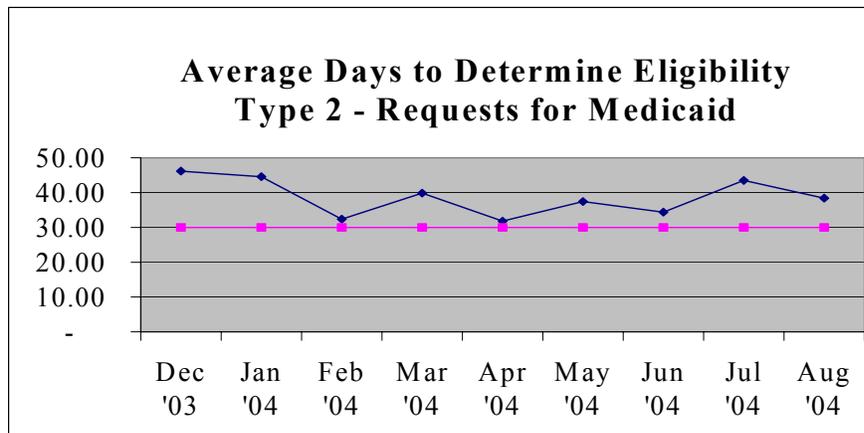
Source: Wisconsin Department of Health and Family Services

**Figure 1**



Source: Wisconsin Department of Health and Family Services

**Figure 2**



Source: Wisconsin Department of Health and Family Services

## Failure to Perform Annual Re-Certifications within Required Timeframes

**Progress towards addressing problems in the area of annual re-certification of Family Care eligibility has been made through a combination of corrective measures.**

Generally, progress towards addressing problems encountered in the area of annual re-certification of Family Care eligibility has been made through implementation of a combination of corrective measures, including:

- Tracking the receipt of applications necessary for conducting financial eligibility review and in recent months, efforts at preparation of management reports that summarize the results of re-certification activity. This is done in collaboration with the ESU, which provides data relating to upcoming re-certifications to the CMO.
- Centralizing the flow of all documents being forwarded from Care Management Units to the ESU through the CMO, where they are now date stamped and logged into MIDAS. This is a key step in establishing accountability for breakdowns in the flow of paperwork between these entities.
- Identifying members losing eligibility through a combination of notification by the ESU using its internally developed tracking mechanism implemented late last year, and review of discrepancy reports so that determinations can be made to either continue efforts toward re-certification or pursue disenrollment.
- Intensifying the level of coordination and collaboration between the CMO and ESU, the two entities principally involved with the re-certification process.
- Resolving the large backlog of cases involving CMO members who either lost eligibility or were never eligible, but were being served without capitation payment for periods that, in a few instances, extended back to early 2001.

While each of these measures represents a positive step towards resolving issues underlying the CMO's 2003 operating deficit, total success has not yet been achieved.

For instance, MCDA management has not yet sufficiently addressed the issue to the point where procedures supporting the re-certification process improvement measures have been approved by the State. Critical relationships between the entities involved (i.e. CMO, ESU and the Resource Center) are

not included in the Family Care Access Plan. Additionally, statistics, similar to those compiled for new enrollments, should be developed to show trends in how long it is taking to complete re-certification.

#### Inaccurate Level of Care Classifications

**While information was available from the State to manually identify discrepancies, the information was not utilized by the CMO.**

A large part of the \$5.6 million CMO deficit for 2003, approximately \$3.3 million, was due to overpayments by the State for Family Care members in the Milwaukee County CMO that were enrolled at a level of care higher than that justified by information contained in the State Long Term Care Functional Screen system. While information was available from the State to manually identify those discrepancies, the information was not utilized by the CMO to monitor and address this problem.

Currently, processes have been developed and implemented to address inter-related functional screen assessment problems, as well as loss of eligibility, as follows:

- Use of a State report that lists members due for functional screening each month serves as a notice to perform the screens and is the basis for tracking at the Care Management Unit level. This should help to reduce the number of Family Care members that are served, but whose eligibility has been terminated due to failure to conduct the required functional screen re-assessment in a timely manner.
- Managing the flow of documents from the CMU to the Economic Support Unit through the CMO for date stamping and logging into MIDAS. This provides a paper trail that establishes accountability for paperwork that gets 'lost,' misdirected or simply unattended.
- A process is currently being implemented that uses a newly developed report to determine whether the functional screen results were updated to CARES, and ultimately to the State MMIS payment system. The report lists members whose functional level of care in MIDAS and the State Long Term Functional Screen does not match. The logic used in creating this report is similar to that used by the State to uncover the discrepancies leading to the CMO's repayment of a reported \$3.3 million for previous years.

The first two of these measures are utilized to ensure that the functional screening is performed on a timely basis, while the last one focuses on detecting instances where the necessary update by ESU staff to CARES, and subsequently the transfer of that information to MMIS, have occurred. Until the full implementation of the matching report is completed, the risk of some amount of overpayments will continue. However, additional safeguards in the financial reporting area, discussed in **Section 3** of this report, can ensure that the CMO does not improperly record payments to which it is not entitled.

### **Conclusions**

**We believe significant progress has been made in addressing problems associated with Family Care eligibility/enrollment issues.**

Based on discussions with CMO, ESU and Resource Center management and staff, as well as State representatives; a general review of tracking systems, reports and other documentation; and observation of the regular and frequent interaction between these entities, we believe significant progress has been made in addressing problems associated with Family Care eligibility/enrollment issues.

However, additional progress is needed to avoid the negative fiscal effects of errors in this important aspect of Family Care administration. Efforts to monitor corrective measures implemented, as well as to continue identifying and resolving problems, is an ongoing process. One factor that should improve performance in the eligibility/enrollment and re-certification areas is the dedication of additional staff resources to the ESU, as noted in the 2005 Adopted Budget. The addition of four new positions and re-deployment of four existing positions will result in staffing for two nine-person units, with supervision and clerical support, as opposed to one 12-person unit. MCDA will be cross-charged approximately \$1.2 million for that portion of the additional staff costs not covered by State funding.

In a perfect world, there would be better integration between the Milwaukee County CMO's MIDAS system and the State's Long Term Care Functional Screen, CARES and MMIS systems. Discussions are underway for possible improvements towards that end, but it is unrealistic to expect significant improvement in the short term. Therefore, it is imperative that MCDA continue to progress in implementing a systems approach to addressing problems involving effective multi-party communications, accurate manual transfer of data among multiple systems, and monitoring performance of staff involved in these processes. Over the long run, management should work with the State to pursue better use of computer technology and the State systems to reduce the amount of manual interventions and reconciliations for tracking purposes.

According to State officials, the addition of a Chief Operating Officer (COO) that reports to the CMO Director (Assistant Director, Department on Aging) is a critical step in ensuring success in this area. Currently, the COO role is partially filled by a part-time consultant. MCDA is currently recruiting for a full-time COO and anticipates filling the position on a contractual basis.

In light of the crucial role of accurate, timely eligibility determinations, re-certifications and tracking of proper enrollment and level of care classifications, we recommend MCDA management:

- 2. Submit a status report in April 2005 to the County Board regarding ongoing efforts to resolve the many inter-related problems associated with the Family Care eligibility/enrollment issue as described in this audit report.*

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## Section 3: Financial Reporting and Fiscal Accountability

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**It was not until January 2004, with the assistance of a contracted accounting firm, that the CMO was able to establish an accurate fiscal position for year-end 2002.**

As noted in **Section 1**, several inter-related problems associated with fundamental financial reporting and fiscal accountability contributed to an environment in which the CMO could not accurately ascertain its true fiscal position. This condition is best illustrated by the fact that it was not until January 2004, with the assistance of a contracted accounting firm, that the CMO was able to establish an accurate fiscal position for year-end 2002.

The consequences of this state of fiscal affairs include:

- The CMO was unable to identify the fiscal implications of the member eligibility/enrollment problems discussed in **Section 2** of this report.
- It is likely that the \$5.6 million deficit recognized in 2003 is at least partially comprised of prior year shortfalls, but the lack of accurate financial statements in prior years makes it difficult to quantify this problem.
- The lack of accurate cost information made it virtually impossible for the CMO to make valid trend projections, detect potentially inappropriate payments or monitor activity for potential cost efficiencies.
- Unable to produce accurate cost information, the Milwaukee County CMO was never able to make a persuasive case to the State that the capitated rate structure adopted by the Family Care program was insufficient to cover Milwaukee County CMO costs. While other factors are involved in setting Family Care rates, this issue was cited by the State as a major concern.

**Several basic fiscal management issues similar to those plaguing the CMO were identified as a problematic in an October 2000 Department of Audit report.**

Several basic fiscal management issues similar to those plaguing the CMO were identified as problematic in an October 2000 Department of Audit report, *Audit of Department on Aging Fiscal Oversight*. In 1999, MCDA had underspent available funding by about \$2.5 million, while approximately 2,800 clients were on waiting lists for services at year-end. A portion of that funding lapsed back to State, while MCDA was ultimately

permitted to apply the majority of the funds to other purposes. In that report, we noted:

“...the process used to manage funding resources is in need of improvement. These issues related to management of funds will carry over to the Family Care environment unless they are corrected.”

A reconciliation of expenditures incurred and revenues received for 1999 to the County’s official financial reporting system, Advantage, was recommended.

During 2000, MCDA prepared to transition clients from other long-term support programs to Family Care. A necessary step in the department’s assumption of Family Care administration was the development of a separate management information system (MIDAS) specifically designed to permit the CMO to track a combination of financial and programmatic data. However, to ensure the accuracy of the financial information contained in MIDAS, it is necessary that regular monthly reconciliations are performed, including Third Party Administrator payments, State capitation rate payments, and other critical financial data, as well as to Milwaukee County’s official financial information system, Advantage. MCDA’s failure to recognize the importance of this crucial step is symptomatic of its lack of fiscal staffing and expertise, which it has acknowledged, and what State officials describe as a lack of a systems approach to problem solving.

### **Current Status**

**MCDA has made progress in acknowledging, identifying and correcting problems related to fiscal accountability.**

Discussions with State DHFS officials, as well as our own observations of CMO operations and limited tests of financial statements and supporting documentation, indicate that MCDA has made progress in acknowledging, identifying and correcting problems related to fiscal accountability. However, continued improvement is necessary.

Following is a discussion of the progress made by MCDA in addressing the two key fiscal problem areas identified in **Section 1** of this report.

#### Inaccurate Financial Statement Reporting

According to the 2004 State contract, a Financial Report is due 45 calendar days after the close of each month. The Financial Report is required to contain several components including a balance sheet, cash flow statement, an income statement and several other elements. Similar requirements were also included in the prior contracts from 2000 through 2003.

According to a State Technical Advisor, the CMO substantively met these contract requirements for the first time with the submission of the June Financial Report in August 2004 and the subsequent Financial Reports for July and August. The State Technical Advisor stated that, although certain required elements are still missing, the CMO has made significant progress in meeting the contract requirements.

Prior to these reports, the CMO had suspended submission of the Financial Reports during 2003 until its financial situation could be clarified and accurately reported. The State Technical Advisor described the Financial Reports submitted in 2002 as sporadic and inaccurate.

We examined the income statement related to August 2004. We noted significant differences between CMO amounts and Milwaukee County Advantage amounts. **Table 2** presents a list of the variances noted in our review.

**Table 2**  
**CMO/Advantage Variances**

<u>Item</u>	<u>CMO</u>	<u>Advantage</u>	<u>Difference</u>
Capitation Revenue	\$73,152,627	\$66,079,696	\$7,072,931
Room/Board, Cost Share Revenue	7,655,658	3,151,284	4,504,374
Member Services Expenditures	76,060,382	32,081,999	43,978,383
Professional Services	1,114,919	465,482	649,437
Contracted Professional Services	256,829	27,818	229,011

Source: CMO Financial Report for August 2004, Advantage.

**Formal reconciliations are not performed on a consistent and timely basis.**

Although the CMO has recognized the differences that exist between its books and Advantage, the CMO has not identified the specific reasons or investigated the details that comprise the differences. Formal reconciliations are not performed on a consistent and timely basis. Rather, the differences are simply 'plugged' into the Financial Report to the State without analysis.

We performed a limited comparison of the transactions posted to Advantage and the CMO's financial statements. We identified numerous transactions that were included in the CMO's financial statements but were not posted to Advantage.

Following is our analysis of the primary reasons for the differences listed in each line contained in **Table 2**.

- *Capitation Revenue.* Advantage does not reflect the capitation revenue received for January 2004 services.
- *Room/Board and Cost Share Revenue.* The CMO did not record deposited revenue to Advantage. Deposits from January through August 2004 were not recorded. According to CMO staff a concerted effort is underway to rectify the situation by the end of November.
- *Member Services, Professional Services, and Contracted Professional Services.* Payments that were made through wire transfers were not posted timely to Advantage due to retirements within the Treasurer's Office. It is our understanding that subsequent to this time period Treasurer

staff have posted wire transfers in an attempt to become current.

**An example of such an error recently surfaced. Member Services costs were erroneously reduced by \$1.1 million.**

It should be noted that the reasons for the differences that we cited may not be the only causes for the discrepancies. Other omissions or errors may still exist. Until a complete and accurate reconciliation is performed on a regular basis between Advantage and the CMO's financial statements, errors and omissions may go undetected. An example of such an error recently surfaced related to Member Services costs. In reviewing CMO costs, the Department of Administrative Services discovered that Member Services costs were erroneously reduced by \$1.1 million to reflect internal case management costs. However, these same costs were already netted out of the Member Services costs reported in the CMO financial statements. A detailed reconciliation to the County's Advantage system, where wire transfer payments for Member Services costs are reflected, likely would have prevented this error.

MCDA has noted that there are significant timing differences between its internal MIDAS system and Advantage, and that backlogs in posting transactions to Advantage make a reconciliation between the two systems problematic. We acknowledge these points and concur that achievement of timely accurate reconciliations of critical CMO financial data may require additional staff resources and training. However, we believe such reconciliations are crucial to detecting errors and omissions that can have serious fiscal implications.

To prevent continued problems associated with erroneous and/or incomplete financial reporting, we recommend MCDA management:

- 3. Assign specific staff to complete timely reconciliations of critical CMO financial data, including MIDAS and Advantage financial information on a regular basis.*

While the key process of reconciliation was absent, we noted other important processes necessary for successful preparation of accurate financial statements have been put into place. For instance, staff regularly compare the detail of the capitated rate revenue payment from the State to the account detail maintained in MIDAS. Differences are then resolved and adjustments recorded to reflect amounts either owed to, or due from, the State.

We also noted that written procedures have been developed regarding the collection, posting and tracking of monthly membership payment obligations. However, similar written procedures have not been developed for the critical activity of State Finance Report preparation. Therefore, we recommend MCDA management:

4. *Prepare written procedures in support of the various tasks necessary to prepare accurate monthly CMO financial statements in accordance with State reporting requirements for CMOs.*

#### Inadequate Fiscal Staffing and Expertise

**In the Fall of 2003, MCDA contracted with a public accounting firm to provide the fiscal personnel and expertise it was lacking.**

In the Fall of 2003, MCDA contracted with a public accounting firm to provide the fiscal personnel and expertise it was lacking. An initial focus of the firm's efforts was to reconcile MIDAS information to the County's Advantage system to ascertain a sound starting point for 2003 operations. In January 2004, agreement was reached with the Milwaukee County Controller and external auditors that, although the County's year-end 2002 financial statements were closed, expenditure adjustments related to the CMO would be reflected as a starting point for the County's 2003 Single Audit report. In addition, greater detail on the financial position of the CMO was presented in the 2003 Single Audit report.

Under a \$500,000 contract dated February 2004, the same public accounting firm provides "...senior financial management

and business operations oversight to CMO to ensure smooth running of the fiscal and business systems." Included within this personnel is a Chief Financial Officer (a new requirement in MCDA's contract with the State for 2004) as well as, other personnel involved in day- to-day operations.

MCDA has also recently filled the position of Assistant Director—Fiscal. The individual filling the position has extensive experience in public administration, budgeting and finance.

#### Cost of Key Personnel

**Under its fiscal services contract, we noted that the CMO is currently paying a consultant an hourly rate of \$104 to fulfill the function of a Chief Financial Officer.**

Under its fiscal services contract, we noted that the CMO is currently paying a consultant an hourly rate of \$104 to fulfill the function of a Chief Financial Officer. In addition, it is paying an hourly rate of \$61, plus \$31 an hour for travel, under the same contract to a consultant, based in Fond du Lac, to fulfill the Chief Operating Officer role on a part time basis until a full-time hire can be made. In a recent invoice, this individual billed the CMO for 62 hours of work and 18 hours of travel in a two-week period. According to the CMO Director, it is anticipated the full-time COO position will also be filled with a person under contract.

While it was important for the CMO to act quickly to meet the pressing need for these positions, as well as to fulfill State contractual requirements for 2004, we believe the rates paid to these individuals justify exploring the possibility of creating new full-time positions within the County to fulfill these mission critical positions. Staff at MCDA indicated there was difficulty recruiting the type of experienced individuals into these positions within the County's salary structure and hiring procedures. However, we believe the Executive Compensation Plan provides sufficient flexibility to create positions that would attract qualified individuals at a competitive compensation level that could potentially save the Family Care program money, even with fringe benefit costs. With mission critical positions that are responsible for managing County employees and resources, it

may be preferable to use full-time County employees as opposed to private contractors.

To fully explore the potential benefits of creating full-time County positions of Chief Financial Officer and Chief Operating Officer for the Milwaukee County CMO, we recommend MCDA management:

5. *Work with the Division of Human Resources to determine the feasibility of creating full-time County positions of Chief Financial Officer and Chief Operating Officer for the Milwaukee County CMO.*

#### **Increased Capitation Rates**

Perhaps the most important improvement identified by the State regarding the Milwaukee County CMO's financial reporting is in the area of provider cost reporting. According to the State, with assistance from its new Third Party Administrator (WPS), the CMO is now directly uploading cost reporting data to the State. The improved cost data was a key factor in the State's decision to revise its capitated rate structure, resulting in a 13.5% increase for the most prevalent rate applicable to Family Care members served by the Milwaukee County CMO, beginning in 2005. This should significantly enhance the CMO's fiscal position in 2005.

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## Section 4: Conclusions

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Throughout this audit, we have reviewed extensive documentation including Family Care background material, correspondence between the State and the Milwaukee County Department on Aging, consultant reports, corrective action plans, and newly developed administrative policies and procedures. We have also interviewed the principal figures involved in administering the Family Care program in Milwaukee County and attempted to verify, wherever possible, progress made towards addressing problems leading to a \$5.6 million operating deficit experienced by the CMO in 2003. Based on this work, we believe the following is clear.

**The Milwaukee County Department on Aging has been tremendously successful in building and maintaining a structure that provides quality long-term supportive care services to the elderly.**

**Ultimately, fiscal accountability is essential to sustain a program of quality long-term supportive care services.**

- Successful administration of the Family Care program in Milwaukee County is a complex task requiring an effective collaboration between three County entities (Resource Center, CMO and ESU) and the State of Wisconsin. Additional challenges are presented with the assignment of fiscal oversight to a fourth County entity, the Department of Administrative Services.
- By all accounts, the Milwaukee County Department on Aging has been tremendously successful in building and maintaining a structure that provides quality long-term supportive care services to the elderly.
- MCDA has not been effective in achieving similar success in building and maintaining the appropriate processes and controls to adequately administer the Family Care program in a fiscally sound manner. Despite progress in this area, the recent surfacing of a \$1.1 million error in the CMO's financial statements indicates continued need for improvement.
- Ultimately, fiscal accountability is essential to sustain a program of quality long-term supportive care services.
- Progress towards acknowledging, identifying and addressing problems that led to a Milwaukee County CMO operating deficit of \$5.6 million has been significant, but not complete. While important improvements have been made in the two major problem areas—eligibility/enrollment and financial reporting/fiscal accountability—reform efforts continue to be affected by:

- Backlogs in key areas such as eligibility determinations, re-certifications and posting of financial transactions. The additional ESU staff budgeted for 2005 may provide relief in some of these areas.
- An overall management approach that has struggled to address both immediate and long-term problems simultaneously. The addition of a full-time Chief Operating Officer could help in this regard.
- Continued strained relations with State officials. Acknowledged by the MCDA Director in her April 9, 2004 deficit notification memo to the County Board Finance and Audit Committee, recent correspondence suggests additional improvement is needed in this area.

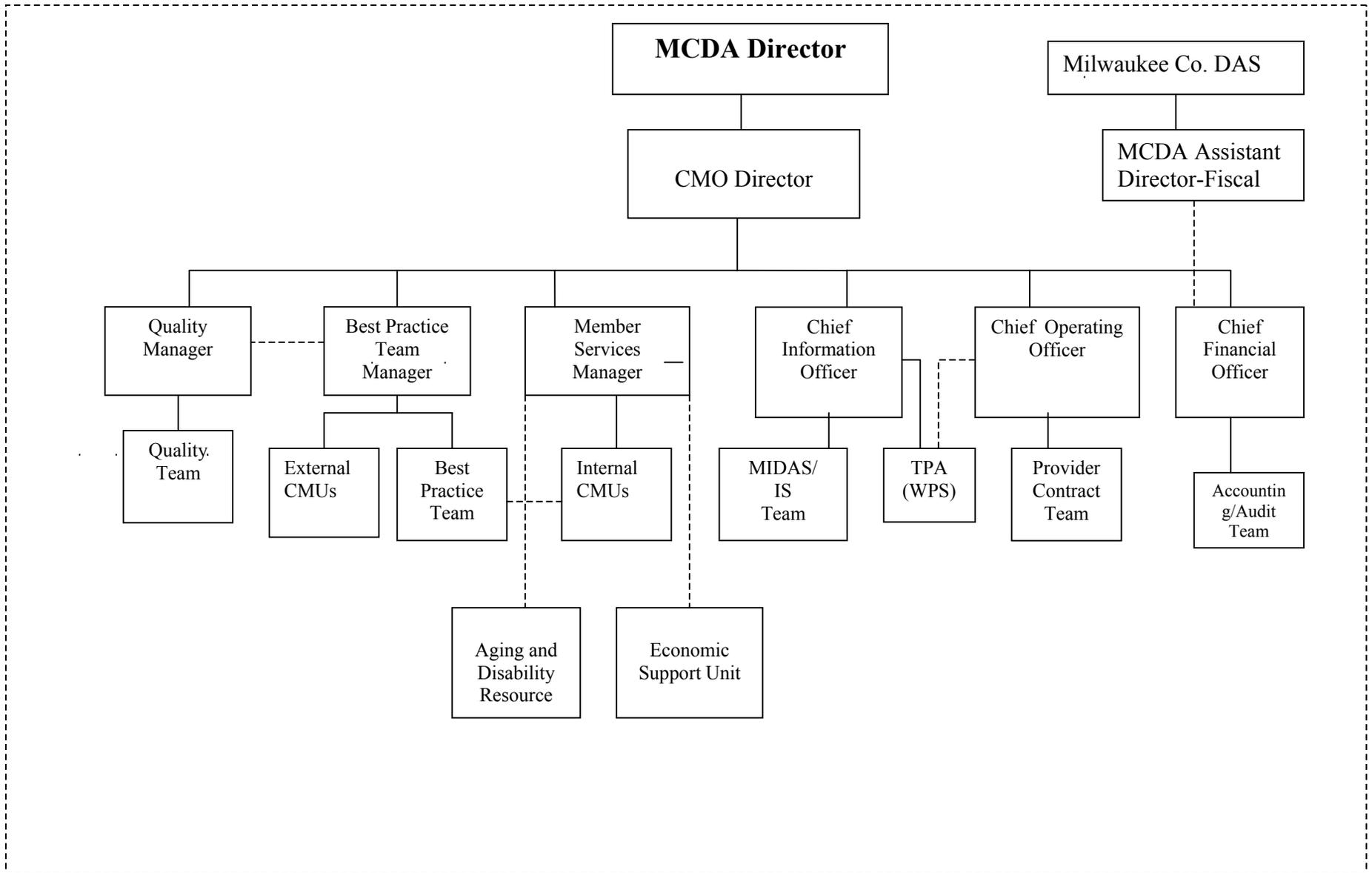
## Audit Scope

The objectives of the audit of Milwaukee County Department on Aging - Care Management Organization 2003 Operating Deficit were to determine what factors led to the deficit, describe the current state of CMO operations, and to recommend steps that should be taken for improvement. The audit was conducted in accordance with standards set forth in the United States Government Accountability Office Government Audit Standards (2003 revision), with the exception of the standard related to periodic peer review. We limited our review to the items specified in this **Scope** section. During the course of this audit we performed the following:

- Reviewed CMO and Resource Center contracts with the State DHFS and between the Resource Center and ESU;
- Reviewed applicable State Statues, regulations and requirements related to CMO, Resource Center, and Economic Support Unit functions;
- Interviewed MCDA and ESU management and staff and State DHFS officials;
- Examined applicable policies, procedures, County ordinances and budgetary information;
- Analyzed CMO and Advantage financial transactions, data, and reports;
- Interviewed individuals contracted to perform CFO and CIO functions within the CMO;
- Examined processes and procedures and other corrective measures implemented to address problems leading to the CMO deficit for 2003;
- Reviewed reports from consultants and other resource material;
- Examined correspondence between the State DHFS and the MCDA; and
- Reviewed minutes and interviewed the chair from the Resource Center oversight Committee of the Milwaukee County Commission on Aging.

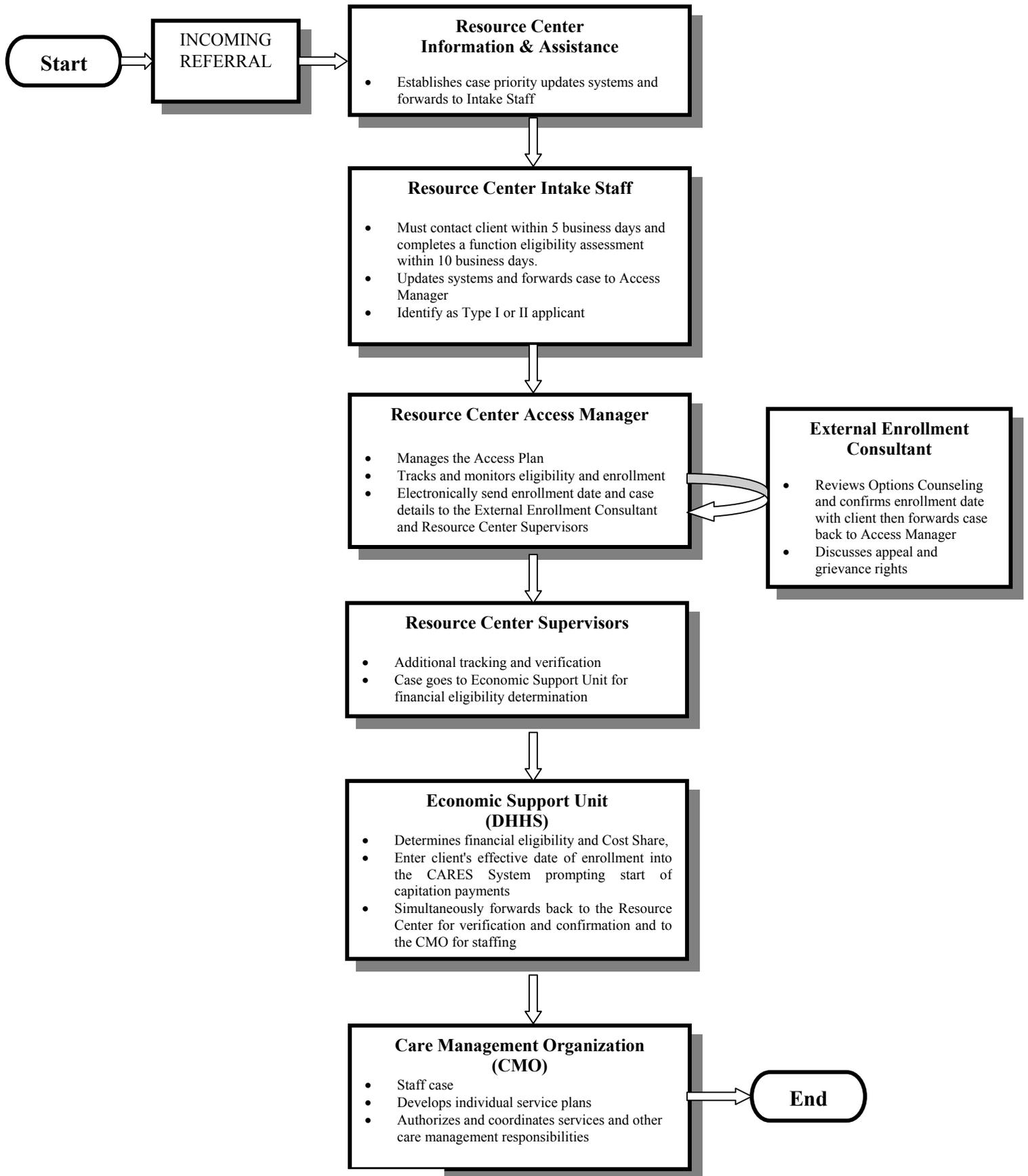
Milwaukee County CMO Organizational Chart

Exhibit 2



Source: Department on Aging.

## Milwaukee County Family Care Program Enrollment Process (Condensed Version)



## Milwaukee County Inter-Office Communication

DATE: December 6, 2004

TO: Jerome J. Heer, Director of Audits

FROM: Stephanie Sue Stein, Director, Department on Aging

SUBJECT: Audit of MCDA CMO 2003 Operating Deficit

Thank you for your assessment of the circumstances underlying the MCDA Care Management Organization's (CMO) deficit in 2003. While progress may seem to be slow, it is reassuring that major aspects of our diagnosis are confirmed by others. The Milwaukee County Department on Aging Care Management Organization began operations in July 2000. This pilot program was a partnership between the State of Wisconsin and the Milwaukee County Department on Aging. This initiative redesigned not only the delivery of long-term care services but also revamped eligibility and enrollment as a result of the managed care waiver that governs Family Care. Your report has focused on two primary areas of concern: Enrollment & Eligibility and Financial Reporting & Fiscal Accountability. It is critical for perspective that several components related to these areas be emphasized.

First, the development of the eligibility and enrollment aspects of the Family Care program lagged behind the service delivery aspect of the program. Approximately \$7.2 million in expenses were incurred by the CMO for members who were not considered enrolled in the Family Care program as reported in a letter received in the spring of 2004 from the Wisconsin Department of Health and Family Services. This failure to enroll has attributed immensely to the CMO's deficits for the years 2000-2004. Economic Support (ESU) staff had no input into the design of the program and as of this writing, have had one formal training session for Family Care since its inception. ESU staffing patterns lagged behind the enormous demands of the program and during the first years of operation, no additional staff were added to cope with the ever increasing demands of initial eligibility and annual recertifications.

The CMO assists its' membership in making sure annual financial certifications are completed. The CMO was alerted to a member's recertification date by a change in that individual's status on the CMO enrollment report. Unfortunately, this state generated enrollment report does not include the universe of individuals requiring financial recertification (the reasons for this are described as CARES or MMIS system errors). The CMO must rely on ESU monthly reports of members needing a financial review and combine this with the state enrollment report in order to get the full universe of affected individuals. The CMO can only track and make sure that a member's financial recertification has been handed to ESU. The CMO cannot process, or prioritize any application.

The addition of ESU staff in 2005 should greatly assist with addressing the timeliness and sheer volume of work associated with eligibility and enrollment issues. And, CMO staff continue to work with the State to find a productive, technological compromise for accurate and prompt transfer of information.

Technology also plays a role in the use of data and the most recent update of the capitation rate. When Family Care first started, the State added expanded financial reporting onto the manual HSRS system. Cost reporting to the state doubled in manual entries and greatly increased its complexities. The state changed from manual to electronic encounter reporting in mid 2002. The electronic reporting greatly enhanced the ease and accuracy of the data transfer. Meanwhile, the CMO changed its Third Party Administrator (TPA) from Keylink to Wisconsin Physicians Association (WPS) in 2004, also greatly enhancing our data reporting accuracy and capacity. Additional changes in the methodology used to derive the capitation rate as well as the use of acuity screens have also assisted Milwaukee County in making the case for a much higher capitation rate, to be received beginning January, 2005.

Second, Financial Reporting and Fiscal Accountability has undergone a major transformation in 2004. During this time period, the fiscal division was affected by: a) a new Third Party Administrator; b) bringing member receivables in-house; c) new accounts receivable system; d) research and reconciliation of approximately 2000 member accounts; e) workload backlog of approximately 4 months due to audit delays; f) development of new financial systems; g) development of new risk & solvency plans; and h) development of response to State RFP. Based on the massive amount of workload and tight county and state deadlines, significant progress has been made which is further illustrated by the Wisconsin Department of Health and Family Services having restored confidence in the CMO and the awarding of a 5-year contract to Milwaukee County.

We acknowledge the importance of reconciling to the County's system, Advantage, particularly at year-end, however, it is difficult to investigate the details that comprise the variances. Financial data is now also incorporated into MIDAS allowing for greater checks and balances and more timely assessment of financial condition. A periodic verification of cost data recorded in MIDAS to the Incurred Claims report as provided by WPS is performed. For the period January 1st through October 13<sup>th</sup>, the variance between the MIDAS and the Incurred Claims report cost data was within 0.17 of 1%. Therefore, the Incurred Claims report was verified to be reliable. It is estimated the Advantage system has been up to 4 to 6 months behind in recording wire transfers making it difficult to completely reconcile to other data.

Differences may appear to be "simply plugged", however, all major expense accounts are tracked and work papers exist for all balance sheet and major revenue and expense accounts. Most recently, the \$1.1 million error occurred when the expense was recorded in the State Financial report. The correct expense was properly identified, however, the error resulted from an unintentional duplicate credit recording of internal

case management charges subsequently under reporting member service expenses. A reconciliation to Advantage would not have identified this under reporting of expense. For greatest fiscal accountability, the CMO is incorporating regular reconciliation of all systems into its standard operating procedures as well as aggressively pursuing auditing of expense and revenue accounts.

In response to the audit recommendations, the Department on Aging will:

- 1) comply with both the letter and intent of S56.02(1) of the County ordinances and make timely notification of suspected, potential operating deficits even prior to knowledge of full scope of a potential issue;
- 2) submit a status report in April 2005 and quarterly thereafter or as requested to the County Board regarding ongoing efforts to resolve inter-related problems associated with the Family Care eligibility/enrollment issue as described in this audit report;
- 3) assign specific staff to complete timely reconciliations of critical CMO financial data including MIDAS and Advantage financial information on a regular basis under the direction of the CFO and Assistant Director- Fiscal;
- 4) prepare written procedures in support of the various tasks necessary to prepare accurate monthly CMO financial reports in accordance with State reporting requirements for CMOs; and
- 5) work with Human Resources Division to review all positions within the CMO for appropriateness and feasibility of using County staff for operations.

As indicated in the December 2, 2004 memo to Supervisor Nyklewicz from Director of Administrative Services Linda Seemeyer and myself regarding the Department on Aging 2004 Fiscal Condition, the Department is investigating reorganization of fiscal and operating staff for optimal use of resources as well as reviewing all operating procedures in addressing these areas of concern. An extensive corrective action and implementation strategy will be provided to the Board in the January cycle.

cc: Linda Seemeyer, Director, Department of Administrative Services  
Steve Agostini, Fiscal and Budget Administrator  
Meg Gleeson, MCDA Assistant Director- Long Term Care  
Melanie Purcell, MCDA Assistant Director- Fiscal  
Jim Hodson, MCDA CMO Chief Financial Officer