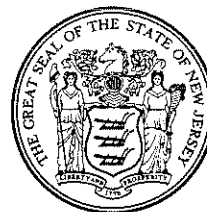

**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**



**Department of Health and Senior Services
Pharmaceutical Assistance to the Aged and Disabled,
Senior Gold, Lifeline, and Hearing Aid Assistance to
the Aged and Disabled Programs**

July 1, 2008 to August 31, 2010

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Health and Senior Services, Pharmaceutical Assistance to the Aged and Disabled, Senior Gold, Lifeline, and Hearing Aid Assistance to the Aged and Disabled Programs for the period of July 1, 2008 to August 31, 2010. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in black ink, appearing to read "Stephen M. Eells".

Stephen M. Eells
State Auditor
November 9, 2010

Table of Contents

	Page
Scope	1
Objectives.....	2
Methodology.....	2
Conclusions.....	3
Findings and Recommendations	
Tenant Lifeline Assistance Program	4
Prescription Claims.....	5
Information Technology Issues	6
Auditee Response	9

Scope

We have completed an audit of the Department of Health and Senior Services' Pharmaceutical Assistance to the Aged and Disabled (PAAD), Senior Gold, Lifeline, and Hearing Aid Assistance to the Aged and Disabled programs for the period July 1, 2008 to August 31, 2010. These programs are administered by the Division of Senior Benefits and Utilization Management (division), Support Services for the Aged and Disabled unit. Fiscal year 2009 and 2010 expenditures for these programs were \$311 million and \$238 million, respectively, and were funded from the state's General Fund and Casino Revenue Fund. Prescription claim processing for PAAD and Senior Gold is performed by Unisys, the state's fiscal agent. We also reviewed selected general and application information technology controls with regard to eligibility determinations.

Additionally, we reviewed the eligibility for the Aids Drug Distribution Program; however, we did not test the related expenditures for this program. We also excluded pharmaceutical rebates from the scope of this audit.

In fiscal year 2009 the PAAD program provided prescription drug benefits to New Jersey residents with incomes less than \$24,432 if single or \$29,956 if married and who were at least 65 years of age or at least 18 years of age and receiving social security disability benefits. Enrollment with a Medicare Part D provider, if eligible, is required. The PAAD copayment is \$6 for each covered generic drug and \$7 for brand name drugs. The Senior Gold program provides prescription drug benefits to a similar population whose annual income is \$10,000 above the applicable PAAD income limits for single and married persons. The Senior Gold copayment is \$15 plus 50 percent of the remaining cost for each covered prescription. Once annual out-of-pocket expense exceeds \$2,000 for single persons and \$3,000 for married couples, they pay only the \$15 copayment per prescription for the balance of the eligibility period.

Lifeline is a utility assistance program that offers \$225 to persons who meet the PAAD eligibility requirements or who receive Supplemental Security Income. This program includes utility customers, as well as tenants whose utility bills are included in their rent.

The Hearing Aid Assistance to the Aged and Disabled program provides a \$100 reimbursement to persons who purchase a hearing aid. The applicant must meet the PAAD eligibility

requirements and provide a doctor attestation of the medical necessity for a hearing aid.

The AIDS Drug Distribution program provides prescription drug benefits to HIV and AIDS patients. The applicant must meet specific income criteria to be eligible for program benefits. They also need to provide a certification by a physician as to their medical condition and a pharmacist's certification as the provider of the prescription medication.

Objectives

The objectives of our audit were to determine whether the expenditure transactions were related to the selected programs, were reasonable, and were recorded properly in the accounting systems and to determine whether the division has adequate procedures in place to monitor program eligibility. Our audit also included a determination of the adequacy of selected information technology general and application controls. These controls included policies and procedures to maintain the applications, user authentication, and authorization to provide network and application security. We also tested for resolution of significant conditions noted in our prior report dated June 21, 2004.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Additional guidance for conduct of the audit was provided by Control Objectives for Information and Related Technology (CobiT) issued by the IT Governance Institute.

In preparation for our testing, we studied legislation, administrative code, circular letters promulgated by the Department of the Treasury, and policies and procedures of the department and division. Provisions that we considered significant were documented and compliance with those requirements was verified by interview, observation, and through our samples of expenditure transactions, eligibility applications, and provider claims. We also read the budget messages, reviewed financial trends, and interviewed division personnel to obtain an understanding of the programs and internal controls.

A nonstatistical sampling approach was used. Our samples of expenditure transactions were designed to provide conclusions about the validity of transactions, as well as internal control and

compliance attributes. We also tested information technology general and application controls to provide conclusions about the adequacy of these controls. Transactions were judgmentally selected for testing. A statistical sample was used for testing the tenant lifeline assistance expenditures.

To ascertain the status of findings included in our prior report, we identified corrective action taken by the division and walked through or performed tests to determine if the corrective action was effective.

Conclusions

We found that the expenditure transactions included in our testing were related to the selected programs, were reasonable, and were recorded properly in the accounting systems, and the division has implemented adequate procedures to monitor program eligibility. In making these determinations, we noted certain internal control weaknesses and matters of compliance with procedures and regulations meriting management's attention. Our review further disclosed that while the division has guidance for appropriate information technology general and application controls, improvement is needed to ensure these controls are adhered to and documented accordingly. We have provided the agency with a management letter under a separate cover containing a more detailed discussion of security issues. We also found that the division has resolved the significant issues noted in our prior report.

Tenant Lifeline Assistance Program

Information that supports a tenant/landlord relationship should be utilized to verify program eligibility.

The intent of the Tenant Lifeline Assistance Program, according to N.J.A.C. 8:83A-1.1 et seq., is to afford assistance to residents who, by virtue of their level of income and age would be eligible for the Lifeline Credit Program, but because their utility costs are included as part of the rental, they do not receive an individual utility bill. A tenant is defined as an individual renting or leasing real property as their principal residence. The application process requires that the tenant submit the name and address of their landlord, which is reviewed by the division in determining eligibility for the \$225 annual assistance. The annual rental payments and lease agreement are not part of the application process.

There were 31,000 beneficiaries who received \$7 million in program benefits during fiscal year 2009. We statistically sampled 47 applications and found that 30 tenants had identified the landlord as having the same address and 16 of these tenants either stated that they were living with a relative or they had the same last name as the landlord. These situations may not represent a tenant/landlord relationship as defined by the New Jersey Administrative Code and would require additional information to substantiate a rental. Based upon our test, the population of tenant beneficiaries who may not have a documented tenant/landlord relationship is at least 6,996 and are receiving \$1.6 million in assistance payments.

Recommendation

We recommend that the division require the amount of the annual rental payments be included in the application process and documentation supporting a rental agreement be reviewed periodically to verify that the applicant is a tenant as defined by the New Jersey Administrative Code.

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Prescription Claims

Payments for prescription claims should be closely monitored.

The Pharmaceutical Assistance to the Aged and Disabled (PAAD) Program provides prescription drug benefits to its beneficiaries, as payer of last resort. PAAD beneficiaries are required to be enrolled with a Medicare Part D provider, if eligible.

For calendar year 2009, the standard Medicare Part D benefit required a \$295 deductible. Once the deductible is satisfied, the Medicare Part D provider is responsible for 75 percent of the drug cost and the beneficiary for 25 percent until the total drug cost reaches \$2,700. The beneficiary is responsible for the entire drug cost between \$2,701 and \$6,154. This is commonly known as the “donut hole”. Drug costs beyond this limit will be paid by Medicare, the Part D provider, and the beneficiary. Our audit found that only some Part D providers grant the division access to their claim details.

PAAD provides assistance so that the beneficiaries pay no more than the \$6 for generic and \$7 for brand name covered drugs. During calendar year 2009 there were 142,700 PAAD beneficiaries covered by Part D plans. Prescription claims paid by PAAD for these beneficiaries were \$182 million.

We tested 16 beneficiaries who had claims averaging \$30,872 for calendar year 2009. We found that PAAD had overpaid \$392,580 on behalf of 14 of these beneficiaries. We noted that total out-of-pocket expenses are not being accumulated accurately by the Centers for Medicare and Medicaid Services (CMS) and Part D providers, which results in beneficiaries remaining in the “donut hole” longer and PAAD paying for claims that should have been the responsibility of the Part D providers. The division, CMS, and Part D providers are aware of this condition and are working to resolve the problem. Some Part D providers review beneficiary claims and refund PAAD for any identified overpayments. For calendar year 2009 the refunds totaled \$3.3 million; however, Part D providers do not provide details of the claim payments and refunds. As a result, the division does not know if the refunds are correct. As of August 13, 2010 the division had recovered \$262,850 of the \$392,580 tested overpayments from one of the Part D providers.

Recommendation

We recommend that the division continue to work with CMS to correct the out-of-pocket calculation problem. Medicare Part D

providers should be required to share the details of the claim payments. The division should also actively monitor the high-dollar claims and seek reimbursement of any overpayments.

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Information Technology Issues

Program participants complete and submit a universal application for Pharmaceutical Assistance to the Aged and Disabled (PAAD), Senior Gold, and the other programs. Prior to June 2008 the applications were microfilmed and manually entered into the eligibility determination system, commonly referred to as UNIX. In June 2008 the process was modernized. Currently, applications are scanned and the data flows to UNIX. Trans@ction eXpress (TreX) supports document management and business processing automation requirements. TreX provides images of the applications while allowing the end user, the Division of Senior Benefits and Utilization Management division staff, to determine program eligibility through UNIX.

Disaster Recovery

The Department of Health and Senior Services is responsible for the Division of Senior Benefits and Utilization Management's network architecture. The division administers the PAAD, Senior Gold, Lifeline utility assistance, and Hearing Aid Assistance to the Aged and Disabled programs. The capability to process, store, and record these transactions and related data is important to the division's operations. Therefore, procedures must be in place to safeguard information resources, minimize the risk of unplanned interruptions, and enable the recovery of critical operations in the event such interruptions occur. This comprehensive business continuity plan should address all potential disruptions to division operations. A departmentwide plan is available in the event of a disaster; however, a plan specific for the division's eligibility determination system (UNIX) was not included.

A disaster recovery plan should be developed and tested.

Recommendation

Under the direction of the department, the division should plan and test a business continuity plan for the UNIX eligibility determination system.

Access for the Management Information System Unit

The division should review the access rights of MIS staff.

The Division of Senior Benefits and Utilization Management has a Management Information System (MIS) unit consisting of UNIX programmers and network administrators. We reviewed the access rights associated with the 12 individuals within the unit to determine if access privileges were appropriate. We noted the following conditions:

- 8 of 12 MIS employees have access to UNIX production,
- 8 of 12 MIS employees have access to TreX production,
- 9 of 12 MIS employees have the ability to add, delete, and edit user profiles in TreX, and
- 5 of 12 MIS employees have supervisor rights, which give the staff person the ability to monitor and modify workflows.

Proper segregation of duties is defined as methods and procedures established as an internal check on activities through separation of custody of assets, authorization of transactions, and operational responsibilities from recordkeeping responsibilities. As a result of the above noted access rights, MIS employees may access information inappropriately or access information for which they have no business need.

Recommendation

We recommend that the division review the MIS access privileges and limit access to those necessary.

User Account Management

The division should strengthen controls for user account administration.

Policies and procedures regarding the administration of user accounts for the network and network applications are available on the department's intranet site. The division has failed to adhere to the policies, which has led to the following conditions.

The systems do not require passwords to be changed on a routine basis. On average, users have not changed their network passwords in 1,258 days and UNIX passwords for 2,440 days. The division maintains that their end users have "too many passwords to remember" so password changes and complexity rules are not enforced.

UNIX users may attempt to access the server an unlimited

number of times. The settings do not lock the user out after multiple failed attempts. This leaves the server vulnerable to brute force attacks.

Recommendations

We recommend the division comply with the department policy and enforce password changes and lockouts.

Network Accounts

Network accounts should be reviewed for appropriateness.

The division does not adequately monitor network accounts to determine who has not logged in within 90 days or has never logged in. In addition, the division uses generic accounts for training, temporary employees, and other administrative purposes. Our review of network identifications noted that 10 of 225 network identifications have never logged into the network and 22 others have not accessed the network in 90 or more days. In addition, 18 of the 225 accounts are group user accounts. CobiT requires that all users (internal, external, and temporary) and their activity on IT systems be uniquely identifiable.

Recommendations

The practice of using group identifications should be prohibited as there is no audit trail of the user's activity, and anyone can use the group user identifications. Inactive, training, and administrative accounts should be disabled.

Oracle Database Security

The division should employ database hardening guidelines.

Applications for PAAD are scanned and stored by the Department of the Treasury, Division of Revenue. The TreX application makes the scanned images available to PAAD staff for review and processing. Our review over the database security noted that password and system resources for this Oracle database are not configured in accordance with National Security Agency (NSA) standards. The NSA has published guidelines for the hardening of Oracle databases, which is used as a security baseline at the federal government level.

In accordance with CobiT control objectives, management should ensure that the set up of system software does not jeopardize the security of the underlying data and programs stored on the system. Attention should be provided for the setup and maintenance of system software parameters.

Recommendations

We recommend the division employ database hardening guidelines.

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State of New Jersey

DEPARTMENT OF HEALTH AND SENIOR SERVICES

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POONAM ALAIGH, MD, MSHCPM, FACP
Commissioner

November 1, 2010

John J. Termyna
Assistant State Auditor
Office of Legislative Services
125 South Warren Street
PO Box 067
Trenton, NJ 08625-0067

Dear Mr. Termyna:

Thank you for the opportunity to submit comments on the audit report of the Department of Health and Senior Services, Pharmaceutical Assistance to the Aged and Disabled, Senior Gold, Lifeline, Hearing Aid Assistance to the Aged and Disabled Programs. I will submit the Department's comments in the order listed in your report.

Tenant Lifeline Assistance Program

Recommendation: We recommend that the division require the amount of the annual rental payments be included in the application process and documentation supporting a rental agreement be reviewed periodically to verify that the applicant is a tenant as defined by the New Jersey Administrative Code.

Response: The New Jersey Administrative Code Chapter 83A Lifeline Credit Program/Tenants Lifeline Assistance Program Manual at 8:83A-1.3 states that "Tenant" means an individual who is renting or leasing real property as his or her principal residence, which includes, but is not limited to, apartments, mobile home park sites, residential shareholders on nonprofit residential cooperatives or mutual housing corporations, owners of condominiums, or persons who are boarding". The program finds that upon significant life changes such as the death of a spouse or with deteriorating health, beneficiaries frequently move in with family members including siblings who share housing costs without formal lease agreements. Some would argue that this represents a "boarding" arrangement as allowed under the Program's definition of tenant. Furthermore, N.J.A.C. 8:83A-4.7 (b) states, "When an applicant is a tenant and the utility costs are included in the monthly rental, the applicant shall submit the name and address of his or her landlord." Current regulations do not require applicants

to indicate the amount of their rental payment or submit copies of their rental agreements; nor has the program required this for the 29 years that the program has provided Tenants Lifeline Assistance benefits. The Department believes that a regulatory change would be necessary to make this change in policy and eligibility requirements before we could begin denying benefits to people who do not have lease agreements. The program agrees to add the question about the amount of rent on the application, which may deter some people from applying who do not have Landlord's, but the Program does not believe it has the authority to deny benefits to anyone who lists even a minimal amount as his/her rental amount. We also recognize that a rental agreement can be just a signed statement between two family members without a formal document.

Prescription Claims

Recommendation: We recommend that the division continue to work with CMS to correct the out of pocket calculation problem. Medicare Part D providers should be required to share the details of the claim payments. The division should actively monitor the high dollar claims and seek reimbursement of any overpayments.

Response: The Department has no authority over Medicare Part D providers to require them to share the details of the claim payments. However, in a letter dated July 30, 2010, CMS recognized the work that PAAD staff has done on a national taskforce, the National Council of Prescription Drug Programs (NCPDP) Information Reporting Problems Task Group, to identify the source of the problem and recommend corrective action. CMS thanked Department staff specifically for working on this corrective action and committed to a full reprocessing of the claims to correct the error. In the meantime, staff continue to work with individual Medicare Part D plans to recover claim costs for processing errors.

Information Technology Issues

Disaster Recovery Recommendation: Under the direction of the department, the division should plan and test a business continuity plan for the UNIX eligibility determination system.

Response: The Department agrees with this recommendation and will make the change.

Access for the Management Information System Unit Recommendation: We recommend that the division review the MIS access privileges and limit access to those necessary

Response: The Department agrees with this recommendation and will make the change.

User Account Management Recommendation: We recommend the division comply with department policy and enforce password changes and lockouts.

Response: The Department agrees with the recommendation and will make the change.

Network Accounts Recommendations: The Practice of using group identifications should be prohibited as there is no audit trail of the user's activity, and anyone can use the group user identifications. Inactive, training, and administrative accounts should be disabled.

Response: The Department agrees with this recommendation and will make the change.

Oracle Database Security Recommendation: We recommend the division employ database hardening guidelines.

Response: This is not in the Department's control to do. The Oracle database is run by the Department of the Treasury, Division of Revenue. We will pass this recommendation to Division of Revenue staff.

I appreciate the opportunity to submit our response to the audit recommendations. If you need further clarification, please feel free to contact me.

Sincerely,

A handwritten signature in black ink that reads "Poonam Alaigh". The signature is written in a cursive style with a large initial 'P' and a stylized 'A'.

Poonam Alaigh, MD MSHCPM, FACP
Commissioner