A Report
to the
Montana
Legislature

Financial-Compliance Audit

# Department of Public Health and Human Services

## For the Two Fiscal Years Ended June 30, 2013

November 2013

Legislative Audit
Division

13-14

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## Financial-Compliance Audits

Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

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Room 277, State Capitol
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# LEGISLATIVE AUDIT DIVISION

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November 2013

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2013. Included in this report are 16 recommendations related to strengthening contract monitoring controls; limiting payments to those allowed by federal law and contract terms; reimbursing federal grantors for benefits disbursed to beneficiaries due to department errors; performing computer access reviews; conducting supervisory reviews to prevent payment and eligibility determination errors in federal programs; and complying with state laws.

This report includes the department's financial schedules. The financial schedule presentation is intended to provide the legislative body with information necessary for decision-making purposes; it is not intended to conform to the financial reporting requirements established in generally accepted accounting principles (GAAP). The financial schedule presentation has not changed, but audit reporting standards have changed. Auditing standards require us to clearly communicate that the financial schedule presentation is not intended to, and does not, conform to GAAP reporting requirements. The Independent Auditor's Report on page A-1 contains language to this effect in the section titled "Adverse Opinions on U.S. Generally Accepted Accounting Principles." This section does not imply the amounts presented on the department's financial schedules are not fairly stated. Page A-1 also communicates the extent to which the users can rely on the information contained in the financial schedules in the section titled "Unmodified Opinions on Regulatory Basis of Accounting."

The department's written response to the audit recommendations is included in the audit report on page B-1. We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

*/s/ Tori Hunthausen*

Tori Hunthausen, CPA
Legislative Auditor

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## Tables

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# Montana Legislative Audit Division

## Financial-Compliance Audit
# Department of Public Health and Human Services
## For the Two Fiscal Years Ended June 30, 2013

November 2013 | 13-14 | Report Summary

The Department of Public Health and Human Services (department) operates a portfolio of medical, economic assistance, and public health programs to serve Montanans. Many of these programs are counter-cyclical, with increases in demand for services coinciding with downturns in employment, income, and state revenues. However, Medicaid and Temporary Assistance for Needy Families (TANF) enrollments increased by 7.7 and 3.03 percent, respectively, between June 2012 and June 2013. Medicaid mental health case load increased by 20.06 percent in the same period.

## Context

Department expenditures during the past fiscal year included $1.254 billion in federal funds. Twelve federal programs comprised 91.8 percent of the federal expenditure total with Medicaid and Supplemental Nutrition Assistance Program (SNAP) comprising 80.5 percent of that total.

The department also operates mental health, developmental disabilities, and long-term care facilities. The department contracts for Medicaid claims processing services and manages a number of information systems to handle eligibility, contractor payments, and other data intensive elements of its programs.

## Results

The report includes 16 recommendations to improve internal controls, enhance compliance with federal laws and regulations, and achieve compliance with state statutes. Issues address TANF fiscal monitoring, department payments not allowable under federal law or program grant agreements, prevention of inappropriate access to computer systems, overcharge for infant formula rebate, and reallocation of alcohol tax distributions in accordance with state law.

We questioned $4,300,075 in costs charged to federal grants as a result of our audit.

The prior audit report had 15 recommendations. The department implemented 10, partially implemented four, and did not implement one.

| Recommendation Concurrence | |
|---|---|
| Concur | 16 |
| Partially Concur | 0 |
| Do Not Concur | 0 |
| Source: Agency audit response included in final report. | |

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

# Chapter I – Introduction

## Audit Scope

We performed a financial-compliance audit of the Department of Public Health and Human Services (department) for the two fiscal years ended June 30, 2013. The objectives of the audit were to:

1. Determine whether the department complied with selected applicable state laws and federal regulations.
2. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.
3. Determine the implementation status of prior audit recommendations.
4. Determine whether the department's financial schedules present fairly the results of operations and changes in fund equity and property held in trust for each of the two fiscal years ended June 30, 2013.

This report contains 16 recommendations to the department. These recommendations address areas where the department can improve internal controls and compliance with state laws and federal regulations.

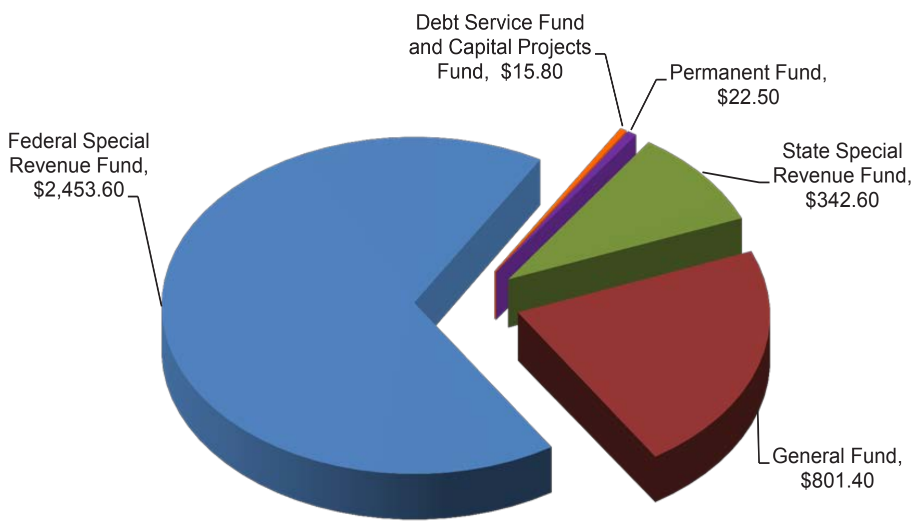
## Background

The department spent approximately $1.86 billion in fiscal year 2012-13, and $1.78 billion in fiscal year 2011-12, administering a wide spectrum of social service and health programs for the state of Montana. The programs include Medicaid, foster care and adoption, nursing home licensing, long-term care, aging services, alcohol and drug abuse, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health services, including communicable disease control and preservation of public health through chronic disease prevention.

Department facilities, by location, include: Montana State Hospital, Warm Springs; Montana Mental Health Nursing Care Facility, Lewistown; Montana Chemical Dependency Center, Butte; Eastern Montana Veterans Home, Glendive; Montana Veterans Home, Columbia Falls; and Montana Developmental Center, Boulder.

Total expenditures by fund for the two fiscal years ended June 30, 2013, are identified in Figure 1. Benefits and Claims expenditures account for approximately 78 percent of the total expenditures.

Figure 1
**Expenditures by Fund for the Two Fiscal Years Ended June 30, 2013**
(Amounts in Millions)

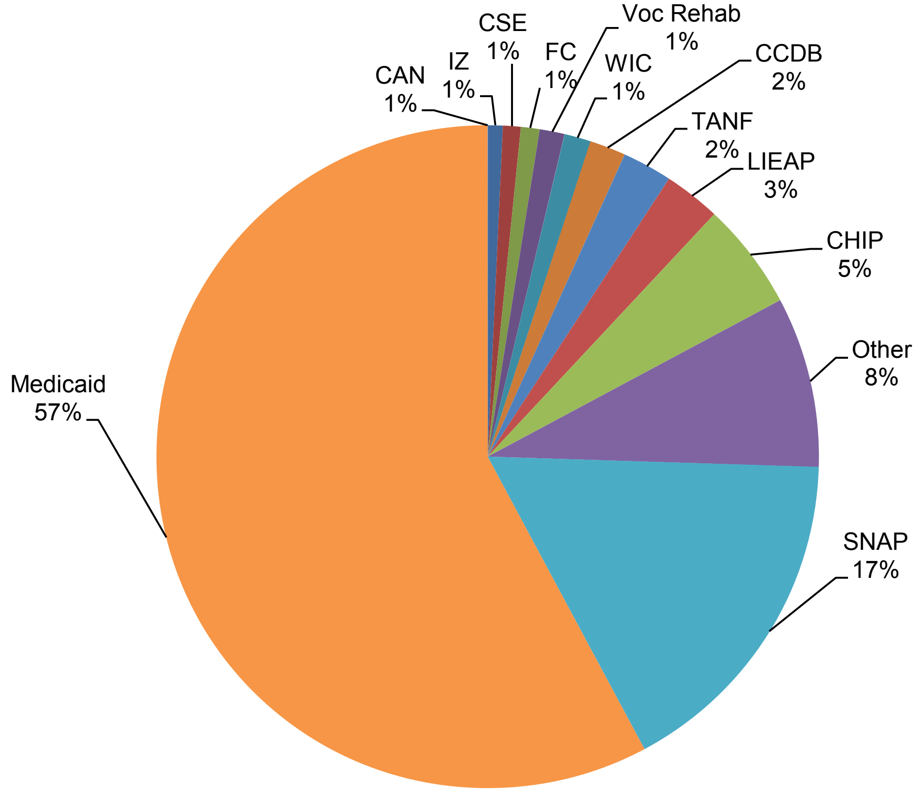



**Source: Compiled by the Legislative Audit Division from department accounting records.**

Federal regulations provide guidance to define major federal programs for the state of Montana subject to audit. We audited 12 department programs with federal expenditures ranging between $1.4 billion and $17.9 million for the two fiscal years ended June 30, 2013, as major federal programs. We performed tests to determine whether the department complied with certain federal regulations in administering these programs. Figure 2, on the next page, identifies these programs and the related expenditures recorded on the state's accounting records.

Figure 2

**Federal Program Expenditures for the Two Fiscal Years Ended June 30, 2013**




| | |
|---|---|
| Medicaid | $1,417.8 |
| Supplemental Nutrition Assistance Program (SNAP) | 408.3 |
| Other | 203.6 |
| Children's Health Insurance Program (CHIP) | 128.3 |
| Low Income Energy Assistance Program (LIEAP) | 67.5 |
| Temporary Assistance for Needy Family Program (TANF) | 59.3 |
| Child Care Development Block (CCDB) | 43.3 |
| Women, Infants, and Children (WIC) | 31.5 |
| Vocational Rehabilitation Grant to States (Voc Rehab) | 27.0 |
| Foster Care (FC) | 22.2 |
| Child Support Enforcement (CSE) | 21.4 |
| Child and Adult Nutrition (CAN) | 21.3 |
| Immunization (IZ) | 17.9 |
| **Total (in millions)** | $2,469.5 |

**Source: Compiled by the Legislative Audit Division from department records.**

## Changes in Social Services

Benefits and claims expenditures totaled $2.7 billion in the 2011 biennium and $2.8 billion in the 2013 biennium, an increase of 2.7 percent. Table 1 below shows changes in caseloads for selected programs from 2012 to 2013.

Table 1
**Department of Public Health and Human Services**
**Case Load Analysis for TANF, Medicaid, and SNAP**

| | June 2013 | June 2012 | Percent Increase |
|---|---|---|---|
| Temporary Assistance for Needy Families (TANF) by individual | 3,227 | 3,123 | 3.03% |
| Medicaid Title 19 (Physical health)-Unduplicated by case | 107,841 | 100,129 | 7.70% |
| Medicaid Mental Health by case | 14,846 | 12,365 | 20.06% |
| Supplemental Nutrition Assistance Program (SNAP) by individual | 59,941 | 59,138 | 1.36% |

**Source: Compiled by the Legislative Audit Division from department records.**

Note: An individual may participate in multiple programs, so the caseloads may be duplicated counts.

## Organizational Structure

During the two years ended June 30, 2013, the department organization consisted of 3 branches and 12 divisions. Descriptions of the branches and divisions are provided below. The department's organization chart and employee full-time equivalent position allocations at July 1, 2013, are shown in Figure 3 on page 8.

The **Director's Office** provides overall policy development and administrative guidance to the department. The Director's Office staff includes legal affairs, public information, human resources executive support, preventive resources center, planning, coordination and analysis, and health policy services. The Native American Advisory Council and the Montana Health Coalition are administratively attached to the department and the director serves on the Interagency Coordinating Council for State Prevention Programs, which is attached to the Governor's Office.

The **Operations Services Branch** includes the Office of Fair Hearings. It also includes the following divisions:

- The Business and Financial Services Division provides services for the department including financial and accounting oversight, department-wide budget monitoring and support, cash management, preparation and filing of federal financial reports, purchasing of supplies and equipment, payroll processing, audit coordination, lease management, mail handling, property and records management, accounts payable, and facility reimbursements.

- The Quality Assurance Division monitors and ensures the integrity and cost effectiveness of programs administered by the department. Services include: oversight of health and day-care providers; detection and investigation of fraudulent practices affecting Medicaid, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program; identification of parties responsible for paying client medical expenses; oversight of internal and external independent audits for department programs; and provide hearings for clients and providers participating in department programs.
- The Technology Services Division (TSD) is responsible for the planning, implementation, and operations of information technology (IT) systems and infrastructure that directly support department programs. TSD develops a biennial DPHHS Information Technology Plan that establishes department goals and objectives regarding the development and use of IT and provides details on how the department will participate in meeting the goals of the State Strategic IT Plan. The division administrator, who also serves as the department's chief information officer, is responsible for implementing the plan and managing the work of the division.

The **Medicaid and Health Services Branch** includes the Medicaid Systems Support Program. It also includes the following divisions:

- The Senior and Long-Term Care Division administers and provides publicly-funded, long-term care services for Montana's senior citizens and persons with physical disabilities through programs consisting of the Office on Aging, Medicaid community and nursing services, the state's two veterans' homes, protective services, and supplemental payments for Supplemental Security Income to eligible individuals residing in designated residential care facilities.
- The Disability Services Division provides services that help Montanans with disabilities to live, work, and fully participate in their communities. The division provides or contracts for institutional care, residential services, home-based services to families, case management, children's mental health services, and a variety of employment outcome-related services. The division operates the Montana Developmental Center in Boulder and administers the Developmental Disabilities Program.
- The Addictive and Mental Disorders Division implements and improves a statewide system of prevention, treatment, care, and rehabilitation for Montanans with mental disorders or addictions to drugs or alcohol. The division achieves this by contracting for chemical dependency and adult mental health services with behavioral health providers. It also provides services in inpatient facilities at Montana State Hospital in Warm Springs, Montana Chemical Dependency Center in Butte, and Montana Mental Health Nursing Care Center in Lewistown. In addition, the Medicaid program funds outpatient and residential chemical dependency treatment for adolescents who are Medicaid recipients.

- The Health Resources Division administers Medicaid primary care services, the Healthy Montana Kids Program, and Big Sky Rx, to improve and protect the health and safety of Montanans. The division reimburses private and public providers for a wide range of preventive, primary, and acute care services.

The **Economic Security Services Branch** includes the following divisions:

- The Human and Community Services Division supports the strengths of families and communities by promoting employment and providing the assistance necessary to help families and individuals meet basic needs and work their way out of poverty. The program provides cash assistance, employment training, Supplemental Nutritional Assistance Program, Medicaid benefits, early childhood care, energy assistance, weatherization, emergency shelter, and distribution of United States Department of Agriculture commodities.
- The Child Support Enforcement Division obtains medical and financial support for children by establishing, enforcing, and collecting financial support owed by obligated parents. Services include locating absent parents, identifying assets, establishing paternity, and ensuring parents maintain medical health insurance coverage for their dependent children.
- The Child and Family Services Division provides protective services to children who are abused, neglected, or abandoned. This includes receiving and investigating reports of child abuse and neglect, helping families to stay together or reunite, and finding placements in foster or adoptive homes.
- The Disability Employment and Transitions Division operates programs to advance employment opportunities, independent living options, and transitions from high school to post-secondary education and work for Montanans with disabilities. The division offers services ranging from employment planning to transportation coordination and works with other agencies to reduce barriers for people with disabilities.
- The Public Health and Safety Division oversees the coordination of the public health system in Montana. The division provides a wide range of public health services to individuals and communities that are aimed at prevention of disease and promotion of health. Programs include clinical and environmental laboratory services, chronic and communicable disease prevention and control, maternal and public health services, public health emergency preparedness, Women's Infants and Child Special Nutrition Program, food and consumer safety, tobacco cessation and prevention programs, and emergency medical services.

## Questioned Costs

In the report sections that follow, we identify, as questioned costs, expenditures of federal assistance that we believe do not comply with regulations of the federal program. Under federal audit requirements, the auditor questions costs associated with an audit finding when the costs result from a violation or probable violation of law or regulation governing the use of federal funds, when the costs are not supported by adequate documentation at the time of the audit, or when the costs incurred appear unreasonable. When federal program personnel resolve the audit issues and set corrective action plans, the federal government may require repayment, reduce the current federal award, or take no financial action on the questioned cost. Table 2 summarizes the federal questioned costs we identify in the report.

Table 2
**Summary of Questioned Costs**
For the Two Fiscal Years Ended June 30, 2013

| Grant Title | Amount of Known Questioned Costs | Page |
|---|---|---|
| CHIP bonus payments | $4,133,184 | 18 |
| Benefit payment errors | $166,891 | 14 |

**Source: Compiled by the Legislative Audit Division.**

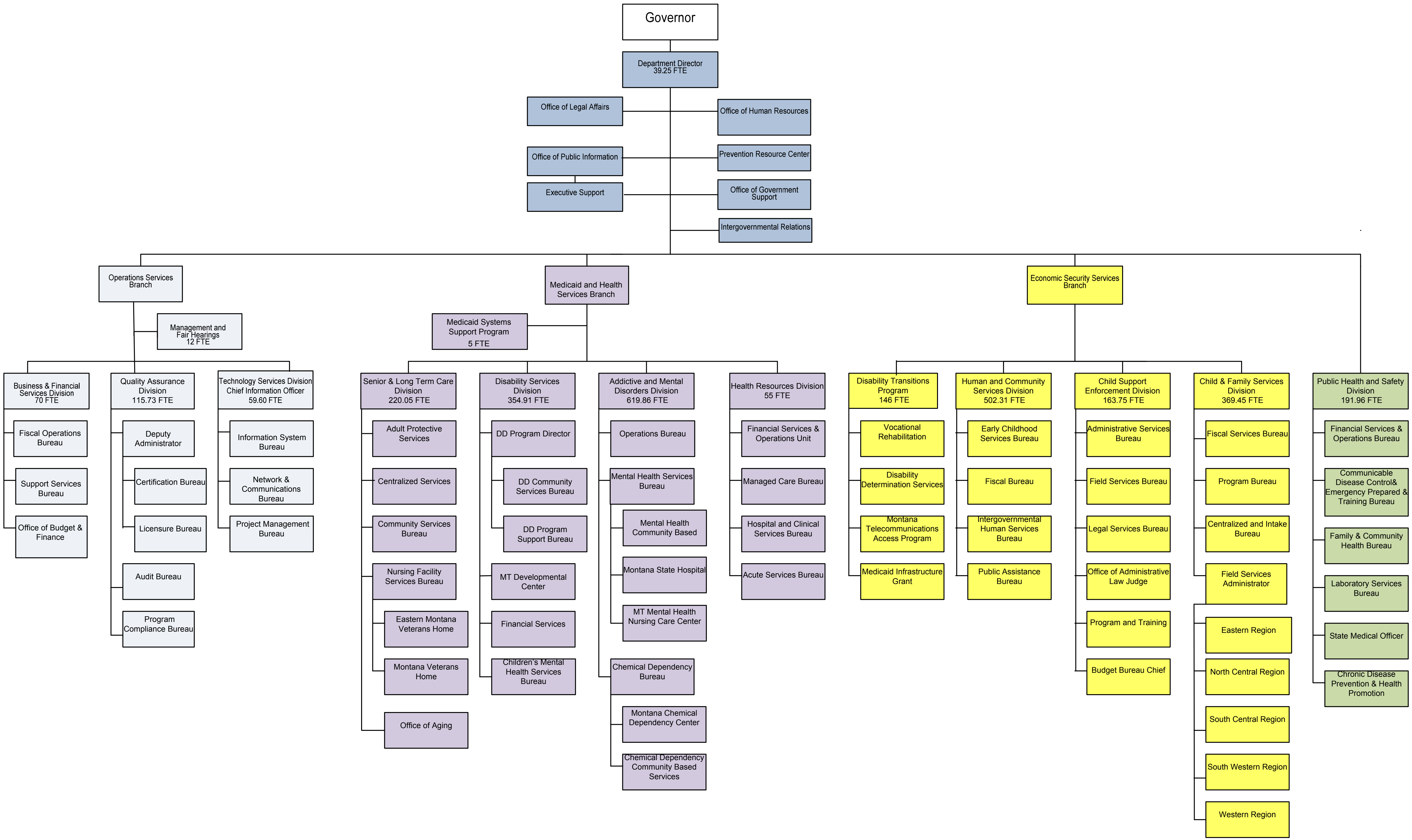
## Prior Audit Recommendations

The department implemented ten of the prior audit recommendations, partially implemented four, and did not implement one. The recommendation not implemented regarding submission of corrective action plans for findings in Temporary Assistance for Needy Families (TANF) contractor fiscal reviews is discussed on page 11.

Partially implemented recommendations concerning reinstatement of TANF recipient eligibility reviews, and documenting annual checks of suspension and debarment status are addressed on pages 12 and 23. Although the department conducted inventories of physical assets at some of its facilities, it did not perform the inventories at the Montana Developmental Center and the Montana Mental Health Nursing Center at least every two years as required by state accounting policy. The department should comply with state policy by taking inventory of physical assets at all of its facilities every two years.

Time and effort reporting by Foster Care contractors is adequate for program oversight, but the department should amend its contract language to facilitate compliance by all contractors, regardless of the number of hours in the employee work week.

Figure 3
**Department of Public Health and Human Services**
**Organizational Chart by Bureau**




**Source: Compiled by Legislative Audit Division.**

# Chapter II – Findings and Recommendations

## Temporary Assistance for Needy Families (TANF)

The Department of Public Health and Human Services (department) administers the TANF program. The goal of the TANF program is to move participants into employment as an alternative to public assistance. In addition to monthly cash assistance payments, those who receive public assistance must, if they are able to work, participate in employment training, including job readiness preparation and work experience opportunities. As a condition of receiving federal TANF awards, the department also expends general fund monies as required annual maintenance of effort. The following table shows total cash payments and contract amounts related to the TANF program.

Table 3
**Schedule of TANF Cash Payments and TANF Contracts**
Fiscal Years 2013 and 2012

| Fiscal Year | TANF Cash Assistance Payments | Contract Amounts for TANF Work-Related Programs | Other TANF-Related Contract | Total |
|---|---|---|---|---|
| 2013 | $17.8 Million | $7.7 Million | $5.0 Million | $30.5 Million |
| 2012 | $19.6 Million | $7.5 Million | $4.4 Million | $31.5 Million |

Source: Compiled by Legislative Audit Division from department records.

Federal regulations require the department, as a recipient of federal assistance, to maintain internal control over its TANF program that provides reasonable assurance that the program operates in compliance with laws, regulations, and the provisions of contracts or grant agreements. Federal regulations also require the department implement monitoring procedures to ensure contractors conform with the terms, conditions, and specifications of the contracts related to federal programs.

The following five report sections describe our findings related to monitoring contracts, contractor payments, suspension of program and eligibility reviews, reimbursement of benefit payment errors, and unnecessary costs related to the TANF program.

## Monitoring Contracts

**The department weakened its internal control over monitoring TANF program contracts by not obtaining corrective action plans as required by department policy.**

We reviewed department procedures governing fiscal reviews of TANF contractors, by which the department implements controls over subrecipient monitoring required by federal regulations. The procedures require corrective action plans from contractors to address deficiencies noted in the reviews. The procedures also set conditions under which assistance of the department's Quality Assurance Division (QAD) will be requested to conduct a review of the contractor. We determined the department did not follow the established procedures.

We noted a fiscal review of one contractor during fiscal year 2012 contained more than 15 initial concerns about direct and allocated charges submitted to the department for reimbursement in addition to four record keeping issues. Department personnel did not resolve several of these initial concerns, and the department did not require the contractor to submit a corrective action plan or request the assistance of QAD to conduct a review of the contractor as required.

We inspected a draft report of the same contractor in fiscal year 2013 and found 15 concerns with direct charges and allocated costs as well as record keeping issues. As of August 2013, department staff had not requested a corrective action plan from the contractor or asked QAD to assist in a review of the contractor.

In our prior audit report we recommended the department enforce provisions of its contracts with TANF providers requiring submission of corrective action plans. The department responded by modifying contract language to state a corrective action plan may be required. However, the department's internal procedures still mandate corrective action plans.

Personnel stated standard operating procedure in fiscal years 2011-12 and 2012-13 consisted of obtaining additional support for charges billed to the department or seeking reimbursement from the contractor. By not requiring corrective action plans, the department decreased the effectiveness of its subrecipient monitoring controls required by federal regulations and increased the risk of compliance violations and questioned costs by the contractor.

While inspecting fiscal review files, we also noticed delays in issuing the review reports to the contractors. As of August 2013, we found five reviews conducted in the months of March through May of 2013 for which the reports had not been distributed to the contractors.

Fiscal reviews are conducted to ensure only allowable expenses are charged to the grant and to foster contract compliance in future periods. The contract requires the contractor to respond within 10 days after receiving notice of review findings from the department. Contractors cannot address fiscal review findings until they receive the report, allowing conditions of noncompliance to remain uncorrected. In addition, the department cannot consider enforcement activities until it has formally reported issues to the contractor and allowed sufficient time for responses. Personnel noted sufficient resources were not allocated in order to complete the reports to the contractor on a timely basis.

The department should allocate time to complete monitoring reports so contractors can initiate corrective action sooner, which reduces the likelihood of similar issues in future fiscal reviews.

***Recommendation #1***

*We recommend the department:*

A. *Issue reports of fiscal reviews to contractors on a timely basis to facilitate corrective action.*

B. *Request corrective action plans from the Temporary Assistance for Needy Families contractors as required by department fiscal review procedures.*

## Contractor Payments

**The department paid a TANF contractor without documentation supporting the payment and paid two subcontractors to whom it was not liable under contract provisions.**

The department did not renew a contract with a TANF service provider at June 30, 2010. Subsequent to the expiration of the contract, the department made a $62,061 payment to the provider in fiscal year 2011-12. The department was unable to provide the documentation supporting the purpose of this payment. Since the payment is not supported, we cannot determine whether it is a valid claim for payment for services rendered under the contract.

The department also paid $26,260 to two subcontractors of the same provider. The department's contract with TANF service providers contain a hold harmless provision that specifically exempts the department, as the agent of the state, from any claims resulting from any acts, errors, omissions, or negligence of the contractor, including claims of subcontractors.

Making payments to employees, agents, and subcontractors retained by the provider is not required by the contract. In our review of department documentation, program staff, management, and legal counsel initially took the position that the department was not responsible to pay for the services others rendered to the provider, asserting payment for these services would set precedent for other injured parties to seek payment directly from the department.

Senior management decided to pay the subcontractors, asserting the failure to do so might jeopardize the ability of the department to obtain similar services in the future from those vendors or from other entities. However, the contract specifically states the department is not liable for the services of subcontractors. By making these payments, the department weakens the protection afforded by the terms of the contract and makes future claims by subcontractors more likely.

***Recommendation #2***

*We recommend the department limit payments to those supported as valid claims and for which the department has contract liability.*

## Suspending Program and Eligibility Reviews

**The department suspended program reviews of TANF contractors and supervisory reviews of recipient eligibility determinations required by department policy and federal regulations.**

The department contracts with social service entities to provide work force and employment programs to eligible participants in the TANF program. Unless granted an exception, recipients of TANF cash assistance are required to participate in work and job skill development activities. Department policy requires contractor program reviews. In fiscal year 2013, the department did not conduct reviews of the entities providing work program services. Program reviews are conducted to improve contractor accountability regarding contract, policy, performance requirements, and federal regulations. Without reviews, there is a risk that instances of noncompliance by the contractor will remain undetected.

In our prior audit, we recommended the department reinstate supervisory reviews of TANF case files, including recipient eligibility determinations. We found the department renewed supervisory reviews in November 2011 and continued the practice until October 2012, at which time the reviews were again suspended.

In both issues discussed above, personnel said the implementation of the TANF module of the Combined Healthcare Information and Montana Eligibility System (CHIMES) computer system in November 2012 limited staff and supervisory resources available to conduct the contractor reviews or eligibility reviews. The implementation of new systems and business processes increases the risk of errors. Continued supervisory and program reviews during these periods becomes more critical to help detect errors in program practices and eligibility determinations made by case workers.

Department management stated the requirement to conduct both types of reviews was reinstated for fiscal year 2014. The reviews provide controls to reduce risk of noncompliance with federal requirements concerning eligibility and subrecipient actions, as required by federal regulations. Since other system implementations are in progress, department management should plan the resource allocations needed to maintain controls during these system implementations.

**Recommendation #3**

*We recommend the department allocate personnel resources to maintain work program reviews and supervisor eligibility reviews in the Temporary Assistance for Needy Families program in accordance with department policy and federal regulation.*

## Benefit Payment Errors

**The department should reimburse the federal government for benefit overpayments caused by errors.**

TANF recipients who do not meet work related requirements for TANF assistance are subject to sanctions as defined by department policy. Those sanctions may result in total case closure or reduced benefits in the month the sanction is applied. Department personnel in local offices or department contractors assisting clients in securing employment enter sanction information into CHIMES. When the program sanction is applied, the client is eligible for a reduced benefit if a formal Employment Plan (EP) is developed and accepted by the department.

The department processed a reduced benefit payment of $298 to a client in July 2013. However, based on our review of the documentation provided by department personnel, the payment should not have been made because it was not supported by proper documentation of an EP in the client's file.

The department policy states it will not seek return of overpayments from recipients when a department error caused the overpayment. However, federal regulations require the department to reimburse the grant for unallowable expenditures. In response to audit inquiry, the department identified $166,891 in TANF cash assistance overpayments between July 1, 2011, and June 30, 2013, caused by department error. We question these payments as unallowable charges to the TANF program.

**Recommendation #4**

*We recommend the department reimburse the federal government for unallowable Temporary Assistance for Needy Families cash assistance payments caused by department errors.*

## Reasonable and Necessary Expenses

**The department reimbursed a TANF contractor for the cost of an audit that was not required by the contract.**

The department's contract for TANF services requires an entity receiving more than $200,000 in federal or state funds, and not required by federal regulations, to have an A-133 audit to obtain an "Agreed Upon Procedures Engagement" according to department guidelines.

In fiscal year 2012-13, a not-for-profit contracting with the department obtained an "Agreed Upon Procedures Engagement" as required by its contract. However, the contractor also billed the department $9,300 for the financial audit of the contractor, which is not required under contract terms.

Federal regulations state that a cost must be necessary and reasonable to be charged to a federal program. Department review of the contractor invoice did not identify and prevent payment of the unnecessary audit cost. Since the audit was not required, we question the $9,300 General Fund payment of the cost and its reporting as maintenance of effort in support of the TANF grant.

After we brought this issue to their attention, department personnel agreed the charge for audit costs was not a necessary charge under the contract and said the department would seek reimbursement from the not-for-profit. The department can limit future payments to costs that are necessary and reasonable by increased awareness of contract terms when reviewing and approving invoices.

**Recommendation #5**

*We recommend the department improve oversight of contract payments by increased awareness of whether billed costs are necessary and reasonable to meet contract terms.*

## Computer Access Reviews

**The department has not reviewed employee access rights to the Shared Fiscal Services Layer module within the Combined Healthcare Information in Montana Eligibility System.**

The Combined Healthcare Information in Montana Eligibility System (CHIMES) is a modern system currently used to determine eligibility for the Medicaid, Children's Health Insurance Plan (CHIP), Supplemental Nutrition Assistance Program (SNAP), and the Temporary Assistance for Needy Families (TANF) programs. The Shared Fiscal Services Layer (SFSL) is a module within CHIMES and currently processes payments for the SNAP and TANF programs, which disbursed approximately $221 million in direct benefits to recipients in fiscal year 2012-13. SFSL uploads transactions for payments by warrant, electronic benefits transfer cards, and direct deposit to the state's accounting records.

Departments policy requires reviews of employee and contractor access to SFSL every April and October. As part of the review process, department technical services personnel export a list of those with access to the SFSL user group supervisors. The personnel ask the supervisors to confirm the continuing need for access and determine whether access of any users should be discontinued due to a change of job duties or termination of employment.

Department management said an access rights review was not completed in April 2013 due to the timing of implementing the SFSL module. Management also stated that there was an initial review and approval of the access rights and users in November 2012 when the module was implemented. Without access reviews, employees without business need for access could generate transactions, intentionally or unintentionally, and divert state resources. The department should follow its access review policy to reduce the risk that employees have inappropriate access rights to the SFSL module.

***Recommendation #6***

*We recommend the department comply with its policy for access reviews on the Shared Fiscal Services Layer module within the Combined Health Information and Medicaid Eligibility System.*

## Child Health Eligibility

**The department did not comply with some elements of its Healthy Montana Kids state plan, and did not review the determinations of eligibility.**

The department operates Healthy Montana Kids (HMK) to provide free or low-cost health coverage to eligible Montana children up to age 19. A child can qualify for HMK based on family size and income. Children from families whose adjusted gross income is at or below 250 percent of the federal poverty level (FPL) are eligible for an HMK coverage group.

- The Children's Health Insurance Plan (CHIP) covers eligible children with FPL greater than 133 percent.
- Medicaid funded HMK Plus provides coverage for those with FPL up to 133 percent for children less than six years of age and up to 100 percent FPL for children between 6 and 18 years of age.

- All eligible children in a family, regardless of the age of the children, will have HMK Plus coverage if the family income is 133 percent FPL or less.

Federal regulations require the department to submit a state plan which outlines the department's intention for CHIP funds. Federal regulations also state the plan shall include a description of procedures to be used to ensure only targeted low-income children are furnished child health assistance under the state plan. The state plan identifies quality assurance reviews as the process for income verification. The department had approximately $128.4 million of CHIP expenditures and 45,887 cases for the two fiscal years ended June 30, 2013.

For the period July 1, 2011, through June 30, 2013, department management suspended quality assurance reviews. The review process includes verification of client reported income, which is the main factor in determining the level of HMK eligibility. The potential exists for ineligible clients to receive HMK benefits during these time periods or for eligible benefits to be charged to the incorrect federal program source. We reviewed 36 case files and found one HMK participant was documented as eligible for CHIP when the family should have been determined eligible for Medicaid financed HMK Plus based on the income level. The eligibility technician who entered the case file with the error into the computer system entered family income twice, from two different tax returns, department management said. As of June 2013, the department paid providers $464 in medical claims related to this family.

Department management stated that it discontinued quality assurance reviews due to staff turnover, staff vacancies, and the extensive system preparation for the conversion to the CHIMES computer system. Management further stated there is a Payment Error Rate Measurement review completed by the Quality Assurance Division that takes place every three years and consists of reviews of randomly sampled cases for eligibility and payment accuracy. However, these reviews only covered three months of the 24-month audit period.

The department should develop and implement procedures to ensure only eligible applicants are enrolled in the CHIP. The department should further develop and implement procedures to ensure applicants are determined eligible in the correct category.

***Recommendation #7***

*We recommend the department develop and implement procedures to ensure applicants are enrolled in the category of the Healthy Montana Kids program for which they are eligible in compliance with federal regulations and the state plan.*

## CHIP Bonus Payments

**The department spent bonus payments for purposes not allowed under federal law governing the Children's Health Insurance Program (CHIP), thereby incurring $4,133,184 in questioned costs.**

Under federal law, states can receive performance bonus payments to offset additional Medicaid and CHIP child enrollment costs resulting from enrollment and retention efforts. By meeting at least five of the eight child enrollment metrics listed in law for federal fiscal years 2011 and 2012, the department received bonus awards of $5,034,670 and $4,786,932 for its performance in these two years. In state fiscal year 2012-13, the department spent $4,852,554 in bonus awards on various programs throughout the department.

We reviewed Subchapter XXI of the Social Security Act, the federal law applicable to CHIP, containing the provisions concerning the award of the performance bonuses. The law stated, in part, that "funds provided under this subchapter shall only be used to carry out the purposes of this subchapter…" Consequently, the uses of bonus payments are limited to uses defined in the law for other CHIP funds. These uses include direct payment of children's health care costs, payment of costs of various methods of providing health care to qualified children, costs of outreach to enroll children for health care, qualified Medicaid benefits for children, and certain administrative costs of children's health care programs. We reviewed the amounts allocated by the department and estimated $4,133,814 of the bonus monies spent in fiscal year 2012-13 do not satisfy allowable uses set in federal law. Therefore, we question the costs summarized in Table 4 on the next page.

Table 4
**CHIP Bonus Questioned Costs**

| Use of Funds | Amount |
|---|---|
| Supplemental payments to independent living centers | $ 200,367 |
| Child care costs | 1,414,970 |
| Online invoicing for child care | 400,000 |
| Child and Family Services in-home intervention | 499,999 |
| Health inspections for nonlicensed establishments | 250,000 |
| Supplemental payments - Developmental Disabilities Services | 918,479 |
| Senior long-term care | 20,000 |
| Montana Chemical Dependency Center (MCDC) | 429,999 |
| **Total** | **$4,133,184** |

**Source: Compiled by Legislative Audit Division from department records.**

The department stated communications from federal program personnel and information on federal websites did not document any restrictions to the use of bonus payments.

**Recommendation #8**

*We recommend the department comply with federal law by expending the Children's Health Insurance Program bonus payments on costs allowable for the Children's Health Insurance Program funds.*

## Child and Adult Care Food Program Cash Management

**The department does not have control procedures to verify whether Child and Adult Care Food Program sponsoring organizations disburse funds to day-care centers within five days as required by federal regulations.**

The department's Child and Adult Care Food Program provides cash reimbursements to sponsoring organizations for meals served by day-care homes to enrolled participants. Federal regulations require sponsoring organizations to distribute reimbursed funds to the day-care centers within five days of receipt from the department. Currently, the department does not have a control procedure to verify the sponsoring organizations are in compliance with this requirement.

As a result, the department risks noncompliance with federal cash management requirements of the Child and Adult Care Food Program. Program staff said a procedure on the department's monitoring tool referring to record keeping requirements covered the cash management concern. However, we observed the monitoring step, as written, does not prompt the reviewer to test compliance with the five day limit. The department could correct this deficiency by including tests of cash management in its monitoring site visits to sponsoring organizations.

**Recommendation #9**

*We recommend the department implement controls to monitor whether sponsoring organizations disburse funds to day-care centers within five days as required by federal regulations.*

## Formula Rebate Invoice Error

**The department's Women, Infants, and Children (WIC) program overcharged a contract formula provider for formula rebates.**

The WIC program, a 100 percent federally funded program of the U.S. Department of Agriculture, provides nutrition education, referrals to health care providers, and reduced cost infant formula for eligible low-income persons.

The WIC program contracts with providers to supply formula to eligible WIC participants. Participants receive vouchers which they redeem for infant formula at retailers. Retailers bill the department for redeemed vouchers. As part of their contract with the department, providers agree to rebate a portion of the cost of formula purchased with vouchers. The program's computer system records the amount of redeemed vouchers each month, calculates the total rebate amount, and prepares an invoice for the rebate amount due from the provider for the month.

We reviewed nine invoices to determine whether rebate amounts were calculated and billed correctly. We found one instance, the September 2012 billing, where the invoice amount billed was incorrect. WIC program managers said the error resulted from recording vouchers for changes in formula type authorized for clients twice in its computer system. WIC personnel detected this error in the calculation and corrected the line items on the invoice. However, the total invoice amount was not changed to reflect the line item changes. As a result, the department billed and the formula provider paid $22,223 more than the actual rebate amount.

**RECOMMENDATION #10**

*We recommend the department:*

A. *Enhance review of formula rebate invoice to ensure amounts charged to providers are correct.*

B. *Repay the formula provider the $22,223 excess billed.*

## Foster Care Subrecipient Monitoring

**The department did not follow established control procedures to ensure subrecipient invoices are reasonable.**

Two university subrecipients submit invoices for expenses incurred throughout the year related to the Foster Care program. The department reimburses these expenses with Title IV-E funds. The department established control procedures to ensure the reasonableness of the invoices. The control procedures involve the review and approval of each invoice by the Contract Specialist and Supervisor. During the audit period, multiple invoices were not approved by the Supervisor. Department personnel indicated the Supervisor was on leave for a substantial amount of time and was unable to review and approve the invoices. However, the department risks improper payment of invoices with Title IV-E funds by not conducting supervisory reviews of provider invoices according to its control procedures.

**RECOMMENDATION #11**

*We recommend the department follow established control procedures to verify subrecipient invoices are reasonable.*

## Fund Reconciliations

**The department did not complete all fund reconciliations and there was a lack of documentation of supervisory review.**

The department maintains financial information related to the various grants the department administers. This includes preparing the required federal reports and requesting federal reimbursements under grant agreements for activities conducted. Department policy requires a reconciliation to be performed for each fund used for a grant. The monthly procedure reconciles expenditures on the state's accounting records to cash draws conducted under the grant agreement. Reconciliations are reviewed by a supervisor for accuracy. These reconciliations serve as the basis for the federal reports, and are a way for the department to check the accuracy of requested federal reimbursements.

We reviewed 40 fund reconciliations and found the following:

- Two were not completed as required by department policy.
- Twelve were not reviewed, or documented as reviewed, by a supervisor as required by department policy.

By not completing supervisory reviews of monthly fund reconciliations, the risk of errors in federal financial reporting and cash draws increases. In addition, fund reconciliations allow the department to detect and correct errors in the state's accounting records, decreasing the risk of errors in the amounts of federal reimbursements requested.

A department manager said 30 percent of the staff positions in the unit responsible for federal reporting and drawing federal funds were vacant during the time when the majority of supervisory reviews were not conducted. The department should consider cross-training employees to maintain capability to meet reporting and cash management workload during periodic incidence of staff turnover.

**Recommendation #12**

*We recommend the department complete and document supervisory reviews of fund reconciliations as required by department policy.*

## Suspension and Debarment

**The department did not verify suspension and debarment status of contractors with multi-year contracts annually as required by its internal policy.**

Federal regulations require agencies to verify a contractor is not suspended or debarred. The department's policy requires the contract manager to sign and date a form entitled "Federal Debarment Certification" to verify the federal "List of Parties Excluded from Federal Procurement and Nonprocurement Programs" has been reviewed at the beginning of the contract and annually thereafter.

We reviewed 30 contracts in effect during our audit period. Of those reviewed, 10 contracts did not have evidence of annual review of whether the contractor had been suspended or debarred as required by department policy. Without annual reviews, the department has the potential risk of using federal and state funds while contracting with a firm that is suspended or debarred. For each contract reviewed we checked the federal list to confirm the contractor had not been suspended or debarred.

In our previous audit, we recommended the department enforce its internal control procedures to ensure compliance with federal suspension and debarment requirements. The department concurred with the recommendation, but did not fully implement annual reviews of suspension and debarment for multi-year contracts.

***Recommendation #13***

*We recommend the department enforce its internal control procedures to ensure compliance with federal suspension and debarment requirements.*

## State Compliance

The department has responsibility for administering laws related to fostering public health, providing services to the economic and medically needy, and operating facilities serving the developmentally disabled, mentally ill, and those in need of long-term care. In fulfilling its mission, the department is subject to laws applicable to state government operations. During our audit, we noted instances of noncompliance with state law concerning performance measurements, alcohol tax distributions, and accounting requirements.

## Performance Measurements

Section 2-15-2222, MCA, requires the department to develop strategic plans, including performance measures, to indicate the progress the department is attaining toward meeting its goals and objectives. State law further specifies the department's system of performance measures must be result-oriented, focusing on outcome and output measures.

The department identified its Combined Goals and Objectives/2015 Biennium Mission Statement Budget Submission that included goals, objectives, and measurements for each of the divisions within the department. When we reviewed this document, we found the plan:

- Does not consistently address results by focusing on outcome and output performance measures with quantifiable measurements of performance.
- Contains few quantitative indicators of performance.

We reviewed several division plans that meet the criteria in §2-15-2223(1), MCA. The Technology Services Division (TSD) section contains clear goals and objectives. A separate document prepared by TSD, the Agency IT Plan, has quantifiable measurements. The 2013 state health plan, "Big Sky – New Horizons – A Healthier Montana: A Plan to Improve the Health of Montanans", identifies priorities, strategies, and quantifiable measurements. The plan could be used as a template for all the divisions in the department.

A department administrator said the form and content of the budget submission are set by the governor and the legislature does not have direct control over the content of that particular document. However, the legislature does identify specific topics during the budget process on which they want more detailed analysis of outcomes. The administrator indicated the finance committee identifies "special topics" during the session budgeting process and the interim, and requests department analysis. These topics are generally areas of interest that individual legislators identify as being important to their constituency. Department staff determines which of these topics they can answer given their available resources and the director decides which ones the department will address. The administrator indicated the state health plan involved resource costs that other divisions could not match.

**Recommendation #14**

*We recommend the department prepare strategic plans with increased use of quantifiable outputs or outcomes to measure performance in reaching program goals and objectives as required by state law.*

## Alcohol Tax Distribution

**The department does not have procedures to identify and recover unencumbered alcohol tax funds from counties at the end of the fiscal year.**

The department distributes alcohol tax proceeds to the counties for various programs including treatment, rehabilitation, and prevention of alcoholism. Per §53-24-108(6), MCA, funds that have not been encumbered for these purposes by the counties must be returned to the alcohol tax state special revenue fund within 30 days after the close of the fiscal year. These funds must be distributed by the department the following year. The department does not have procedures in place to determine whether counties have unencumbered funds at the close of the fiscal year.

As a result, the department does not comply with state law. Without a procedure to identify unencumbered funds, such funds will not be recovered and redistributed. Personnel said they were unaware of the statutory requirement to recover unencumbered alcohol tax funds from counties.

***Recommendation #15***

*We recommend the department implement procedures to ensure unencumbered alcohol tax funds from the counties are identified and recovered in compliance with state law.*

## Accounting Issues

Section 17-1-102(4), MCA, requires state agencies to input all necessary transactions to the state's accounting system before the accounts close at fiscal year-end to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles. The Department of Administration issues accounting policy to guide state agencies in complying with this law. The following sections discuss situations where the department can improve its accounting procedures to comply with state law.

### Capital Assets

The department's facilities have multiple construction projects which are administered by the Department of Administration's Architecture and Engineering Division (A & E). Although the construction expenses are recorded by A & E, department accountants have responsibility for recording the construction assets on the state's accounting records.

State accounting policy requires agencies to capitalize buildings and improvements when the project value exceeds $25,000. If a project is not completed as of fiscal year-end, the agency should record the total capitalizable construction expenditures incurred to date on the state's accounting records as construction work in progress. The department did not record construction work in progress for projects as of June 30, 2013. As a result, construction work in progress is understated and nonbudgeted capital asset expenditures are overstated on the state's accounting records by $1,002,999 for fiscal year 2012-13. Department accounting personnel in Helena, who record the construction assets, said they were not aware of the construction projects at the facilities.

## Veterans Administration Project

The department contracted with the Veteran Administration (VA) for improvements to its Eastern Montana Veteran Home facility. The department contacted A & E to oversee the construction project. A & E incurred $195,843 in expenditures for the project. Although the department, as the only state party to the agreement with the VA, must draw the reimbursement funds, the department did not establish an account on its records or draw the reimbursement. As a result, A & E recorded an inter-entity loan from the General Fund to pay the cost of construction, anticipating the department would obtain reimbursement. The department should have recorded a liability to A & E for the construction costs paid and a receivable from the federal government. A department official said he believed the VA would pay A & E directly. As of September 2013, the department had not requested the money from the VA.

### Recommendation #16

*We recommend the department*

A. *Implement procedures to track construction project costs at the facilities.*

B. *Record building and improvement assets on the state's accounting records.*

C. *Establish an account to receive federal funds and transfer the receipts to the Architecture and Engineering Division to cover construction expenses at its Eastern Montana Veteran's Home facility.*

# Independent Auditor’s Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel

Deputy Legislative Auditors
Cindy Jorgenson
Angus Maciver

# Independent Auditor's Report

The Legislative Audit Committee
of the Montana State Legislature:

***Introduction***

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2013, and 2012, and the related notes to the financial schedules.

***Management's Responsibility for the Financial Schedules***

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy, and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

*Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles*

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

*Adverse Opinions on U.S. Generally Accepted Accounting Principles*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2013, and June 30, 2012, or changes in financial position or cash flows for the years then ended.

*Unmodified Opinions on the Regulatory Basis of Accounting*

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2013, and 2012, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

*/s/ Cindy Jorgenson*

Cindy Jorgenson, CPA
Deputy Legislative Auditor

September 13, 2013

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Agency Fund | Permanent Fund |
|---|---|---|---|---|---|---|---|
| FUND EQUITY: July 1, 2012 | $ (40,352,322) | $ 49,491,062 | $ (10,107,736) | $ 4,330,922 | $ (381,779) | $ 0 | $ 160,610,938 |
| PROPERTY HELD IN TRUST: July 1, 2012 | | | | | | $ 1,266,669 | |
| ADDITIONS | | | | | | | |
| Budgeted Revenues & Transfers-In | 19,648,947 | 48,992,242 | 1,066,206,473 | | | | 40,392 |
| Nonbudgeted Revenues & Transfers-In | (16,905) | 5,616,216 | 190,755,590 | 3,003,148 | | | 15,159,697 |
| Prior Year Revenues & Transfers-In Adjustments | 289,572 | 46,028 | (20,636,627) | | | | |
| Direct Entries to Fund Equity | 398,303,960 | 95,139,470 | 123,326 | | 5,093,966 | | |
| Additions to Property Held in Trust | | | | | | 77,674,877 | |
| Total Additions | 418,225,575 | 149,793,956 | 1,236,448,763 | 3,003,148 | 5,093,966 | 77,674,877 | 15,200,089 |
| REDUCTIONS | | | | | | | |
| Budgeted Expenditures & Transfers-Out | 416,290,786 | 157,144,183 | 1,275,723,410 | | 6,100,655 | | |
| Nonbudgeted Expenditures & Transfers-Out | (32,335) | 15,683,561 | 119,701 | 3,012,304 | | | 6,550,772 |
| Prior Year Expenditures & Transfers-Out Adjustments | (880,012) | (298,771) | (21,243,011) | | | | |
| Reductions in Property Held in Trust | | | | | | 77,751,063 | |
| Total Reductions | 415,378,439 | 172,528,973 | 1,254,600,101 | 3,012,304 | 6,100,655 | 77,751,063 | 6,550,772 |
| FUND EQUITY: June 30, 2013 | $ (37,505,186) | $ 26,756,045 | $ (28,259,075) | $ 4,321,766 | $ (1,388,468) | $ 0 | $ 169,260,255 |
| PROPERTY HELD IN TRUST: June 30, 2013 | | | | | | $ 1,190,483 | |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Debt Service Fund | Capital Projects Fund | Agency Fund | Private Purpose Trust Fund | Permanent Fund |
|---|---|---|---|---|---|---|---|---|
| FUND EQUITY: July 1, 2011 | $ (52,768,522) | $ 76,097,655 | $ (6,818,397) | $ 4,236,572 | $ (9,490) | $ 0 | $ 110,663 | $ 152,376,158 |
| PROPERTY HELD IN TRUST: July 1, 2011 | | | | | | $ 1,005,297 | | |
| ADDITIONS | | | | | | | | |
| Budgeted Revenues & Transfers-In | 18,331,477 | 50,476,983 | 1,021,141,690 | | | | | 36,728 |
| Nonbudgeted Revenues & Transfers-In | 7,854,609 | 5,819,263 | 191,215,938 | 3,032,833 | | | | 24,175,653 |
| Prior Year Revenues & Transfers-In Adjustments | (45,131) | (114,334) | (15,613,390) | | | | | |
| Direct Entries to Fund Equity | 372,315,415 | 87,305,280 | (982,314) | | 3,423,367 | | (110,663) | |
| Additions to Property Held in Trust | | | | | | 91,064,206 | | |
| Total Additions | 398,456,370 | 143,487,192 | 1,195,761,924 | 3,032,833 | 3,423,367 | 91,064,206 | (110,663) | 24,212,381 |
| REDUCTIONS | | | | | | | | |
| Budgeted Expenditures & Transfers-Out | 398,644,416 | 155,161,388 | 1,215,133,919 | | 3,795,655 | | | |
| Nonbudgeted Expenditures & Transfers-Out | 140,962 | 16,733,529 | 108,131 | 2,938,483 | | | 51 | 15,977,601 |
| Prior Year Expenditures & Transfers-Out Adjustments | (12,745,208) | (1,801,132) | (16,190,787) | | | | (51) | |
| Reductions in Property Held in Trust | | | | | | 90,802,834 | | |
| Total Reductions | 386,040,170 | 170,093,785 | 1,199,051,263 | 2,938,483 | 3,795,655 | 90,802,834 | 0 | 15,977,601 |
| FUND EQUITY: June 30, 2012 | $ (40,352,322) | $ 49,491,062 | $ (10,107,736) | $ 4,330,922 | $ (381,778) | $ 0 | $ 0 | $ 160,610,938 |
| PROPERTY HELD IN TRUST: June 30, 2012 | | | | | | $ 1,266,669 | | |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Debt Service Fund | Permanent Fund | Total |
|---|---|---|---|---|---|---|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | |
| Licenses and Permits | $ 88,445 | $ 1,766,901 | | | | $ 1,855,346 |
| Charges for Services | 16,499,658 | 16,491,789 | $ 204 | | | 32,991,651 |
| Investment Earnings | (62,050) | 102,887 | 202 | $ 213,415 | $ 2,469,796 | 2,724,250 |
| Fines and Forfeits | | 200 | | | | 200 |
| Monetary Settlements | | 16,132,209 | 2,598,774 | | 12,077,716 | 30,808,699 |
| Sale of Documents, Merchandise and Property | 1,220 | 88,163 | | | | 89,383 |
| Rentals, Leases and Royalties | 248 | 41,615 | | | | 41,863 |
| Grants, Contracts, and Donations | | 10,527,139 | | | | 10,527,139 |
| Transfers-in | 3,345,780 | 8,557,029 | 333,598 | 2,789,733 | 652,577 | 15,678,717 |
| Federal Indirect Cost Recoveries | | 5,295 | 65,431,928 | | | 65,437,224 |
| Miscellaneous | 46,248 | 891,033 | 159,411 | | | 1,096,692 |
| Federal | 2,066 | 50,227 | 1,167,801,319 | | | 1,167,853,611 |
| Total Revenues & Transfers-In | 19,921,615 | 54,654,486 | 1,236,325,436 | 3,003,148 | 15,200,089 | 1,329,104,775 |
| Less: Nonbudgeted Revenues & Transfers-In | (16,905) | 5,616,216 | 190,755,590 | 3,003,148 | 15,159,697 | 214,517,747 |
| Prior Year Revenues & Transfers-In Adjustments | 289,572 | 46,028 | (20,636,627) | | | (20,301,027) |
| Actual Budgeted Revenues & Transfers-In | 19,648,947 | 48,992,242 | 1,066,206,473 | 0 | 40,392 | 1,134,888,054 |
| Estimated Revenues & Transfers-In | 20,295,783 | 137,036,449 | 1,456,650,938 | | 750,000 | 1,614,733,170 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (646,836) | $ (88,044,207) | $ (390,444,465) | $ 0 | $ (709,608) | $ (479,845,116) |
| | | | | | | |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | |
| Licenses and Permits | $ 14,773 | $ (971,295) | | | | $ (956,522) |
| Taxes | | (489,772) | | | | (489,772) |
| Charges for Services | (837,322) | (10,263,337) | $ (72) | | | (11,100,732) |
| Investment Earnings | (72,050) | (22,059,216) | (0) | | $ (709,608) | (22,840,874) |
| Monetary Settlements | | (33,692,707) | (413,816) | | | (34,106,523) |
| Sale of Documents, Merchandise and Property | (580) | (61,591) | | | | (62,171) |
| Rentals, Leases and Royalties | (604) | 324 | | | | (280) |
| Grants, Contracts, and Donations | | 1,287,674 | | | | 1,287,674 |
| Transfers-in | 386,816 | (18,014,948) | (34,754) | | | (17,662,887) |
| Federal Indirect Cost Recoveries | | (89,739) | (61,297,457) | | | (61,387,196) |
| Miscellaneous | (129,169) | (2,245,724) | 140,007 | | | (2,234,886) |
| Federal | (8,700) | (1,443,875) | (328,838,373) | | | (330,290,948) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (646,836) | $ (88,044,207) | $ (390,444,465) | $ 0 | $ (709,608) | $ (479,845,116) |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | General Fund | State Special Revenue Fund | Federal Special Revenue Fund | Debt Service Fund | Permanent Fund | Total |
|---|---|---|---|---|---|---|
| TOTAL REVENUES & TRANSFERS-IN BY CLASS | | | | | | |
| Licenses and Permits | $ 102,579 | $ 1,425,474 | | | | $ 1,528,053 |
| Taxes | | 5,000 | | | | 5,000 |
| Charges for Services | 14,573,531 | 18,233,520 | $ 709 | | | 32,807,760 |
| Investment Earnings | 32,324 | 171,054 | 255 | $ 215,089 | $ 11,461,177 | 11,879,899 |
| Fines and Forfeits | | 100 | | | | 100 |
| Monetary Settlements | | 16,819,779 | 2,646,105 | | 12,081,094 | 31,546,978 |
| Sale of Documents, Merchandise and Property | 1,677 | 84,626 | | | | 86,303 |
| Rentals, Leases and Royalties | 563 | 26,578 | | | | 27,141 |
| Grants, Contracts, and Donations | | 9,204,368 | | | | 9,204,368 |
| Transfers-in | 11,526,675 | 10,216,235 | 285,204 | 2,817,744 | 670,110 | 25,515,968 |
| Federal Indirect Cost Recoveries | | 5,819 | 61,330,243 | | | 61,336,062 |
| Miscellaneous | (97,588) | (436,305) | 154,261 | | | (379,632) |
| Federal | 1,194 | 425,664 | 1,132,327,461 | | | 1,132,754,319 |
| Total Revenues & Transfers-In | 26,140,955 | 56,181,912 | 1,196,744,238 | 3,032,833 | 24,212,381 | 1,306,312,319 |
| Less: Nonbudgeted Revenues & Transfers-In | 7,854,609 | 5,819,263 | 191,215,938 | 3,032,833 | 24,175,653 | 232,098,296 |
| Prior Year Revenues & Transfers-In Adjustments | (45,131) | (114,334) | (15,613,390) | | | (15,772,855) |
| Actual Budgeted Revenues & Transfers-In | 18,331,477 | 50,476,983 | 1,021,141,690 | 0 | 36,728 | 1,089,986,878 |
| Estimated Revenues & Transfers-In | 21,399,783 | 120,463,860 | 1,407,458,973 | | 750,000 | 1,550,072,616 |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (3,068,306) | $ (69,986,877) | $ (386,317,283) | $ 0 | $ (713,272) | $ (460,085,738) |
| | | | | | | |
| BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS | | | | | | |
| Licenses and Permits | $ 28,907 | $ (1,252,607) | | | | $ (1,223,700) |
| Taxes | | (409,852) | | | | (409,852) |
| Charges for Services | (2,579,874) | (418,184) | $ (116) | | | (2,998,174) |
| Investment Earnings | 22,324 | (55,424,644) | 234 | | $ (713,272) | (56,115,358) |
| Monetary Settlements | | 3,129,168 | (353,994) | | | 2,775,174 |
| Sale of Documents, Merchandise and Property | (123) | (10,986) | | | | (11,109) |
| Rentals, Leases and Royalties | (315) | (15,253) | | | | (15,568) |
| Grants, Contracts, and Donations | | (38,469) | | | | (38,469) |
| Transfers-in | (328,325) | (14,414,709) | (10,629) | | | (14,753,663) |
| Federal Indirect Cost Recoveries | | (97,785) | (74,637,859) | | | (74,735,644) |
| Miscellaneous | (201,959) | (1,515,680) | 118,457 | | | (1,599,182) |
| Federal | (8,941) | 482,124 | (311,433,376) | | | (310,960,193) |
| Budgeted Revenues & Transfers-In Over (Under) Estimated | $ (3,068,306) | $ (69,986,877) | $ (386,317,283) | $ 0 | $ (713,272) | $ (460,085,738) |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

| | Addictive & Mental Disorders | Business & Financial Services Division | Child & Family Services | Child Support Enforcement | Developmental Services Division | Director's Office | Disability Employment & Transitions | Health Resources Division | Human and Community Services | Management and Fair Hearings | Medicaid and Health Services Management | Public Health & Safety Division | Quality Assurance Division | Senior & Long-Term Care | Technology Services Division | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | | | | | | | | | | | | | | | | |
| Personal Services | | | | | | | | | | | | | | | | |
| Salaries | $ 26,318,206 | $ 2,659,226 | $ 14,398,398 | $ 6,723,364 | $ 12,810,154 | $ 4,222,330 | $ 5,826,640 | $ 1,998,369 | $ 17,942,790 | $ 720,042 | $ 242,278 | $ 8,463,475 | $ 4,636,726 | $ 7,898,349 | $ 4,631,607 | $ 119,491,955 |
| Hourly Wages | | | | | 13,036 | | | | | | | | | | | 13,036 |
| Employee Benefits | 10,940,783 | 904,947 | 5,414,428 | 2,436,075 | 5,626,020 | 860,645 | 2,163,045 | 694,275 | 7,100,152 | 219,162 | 67,838 | 2,966,304 | 1,665,017 | 3,532,718 | 1,454,775 | 46,046,181 |
| Total | 37,258,989 | 3,564,173 | 19,812,826 | 9,159,439 | 18,449,209 | 5,082,975 | 7,989,685 | 2,692,643 | 25,042,942 | 939,204 | 310,116 | 11,429,779 | 6,301,743 | 11,431,068 | 6,086,382 | 165,551,172 |
| Operating Expenses | | | | | | | | | | | | | | | | |
| Other Services | 5,360,859 | 3,019,115 | 1,361,622 | 425,018 | 4,386,932 | 862,267 | 2,985,813 | 9,403,829 | 5,622,216 | 4,151 | 9,725,029 | 8,871,587 | 344,879 | 5,076,772 | 45,933,794 | 103,383,883 |
| Supplies & Materials | 3,402,221 | (36,986) | 321,843 | 103,318 | 664,585 | 46,474 | 237,708 | 33,049 | 537,543 | 4,937 | 1,289 | 2,275,399 | 84,413 | 1,233,276 | 3,026,234 | 11,935,303 |
| Communications | 343,606 | 1,000,862 | 484,653 | 371,117 | 109,914 | 154,899 | 322,783 | 31,949 | 463,696 | 7,759 | 5,565 | 835,611 | 109,007 | 118,369 | 2,294,898 | 6,654,689 |
| Travel | 167,225 | 4,305 | 602,485 | 24,329 | 155,390 | 55,638 | 167,215 | 6,239 | 265,607 | 4,610 | 1,484 | 631,542 | 265,686 | 97,395 | 161,089 | 2,610,237 |
| Rent | 748,493 | 278,425 | 2,493,232 | 741,805 | 452,783 | 131,369 | 830,445 | 134,457 | 2,609,726 | 65,669 | 7,612 | 799,760 | 500,708 | 548,184 | 455,403 | 10,798,072 |
| Utilities | 874,011 | | 1,826 | | 323,058 | | (25) | | 75,477 | | | 18,191 | 17 | 167,002 | | 1,459,557 |
| Repair & Maintenance | 1,042,486 | 30,517 | 57,489 | 29,461 | 77,260 | 7,587 | 108,376 | 14,326 | 165,945 | 790 | 444 | 227,777 | 4,131 | 420,934 | 120,500 | 2,308,022 |
| Other Expenses | 3,672,417 | (7,248,797) | 6,484,251 | 4,847,841 | 3,595,745 | (5,477,963) | 965,245 | 17,030,068 | 22,052,365 | (1,016,960) | (9,742,289) | 3,606,026 | (435,397) | 2,137,510 | (35,895,901) | 4,574,162 |
| Goods Purchased For Resale | 77,152 | | | | 1,012 | | | | | | | | | | | 78,164 |
| Total | 15,688,471 | (2,952,558) | 11,807,402 | 6,542,888 | 9,766,679 | (4,219,729) | 5,617,562 | 26,653,917 | 31,792,574 | (929,043) | (866) | 17,265,893 | 873,444 | 9,799,441 | 16,096,016 | 143,802,089 |
| Equipment & Intangible Assets | | | | | | | | | | | | | | | | |
| Equipment | 56,770 | | 78,894 | 32,470 | | | | | | | | 275,984 | 9,679 | 27,805 | 204,708 | 686,309 |
| Intangible Assets | | | | | | | | | | | | 254,286 | | | 78,984 | 333,271 |
| Total | 56,770 | | 78,894 | 32,470 | | | | | | | | 530,270 | 9,679 | 27,805 | 283,692 | 1,019,580 |
| Local Assistance | | | | | | | | | | | | | | | | |
| From State Sources | 2,219,296 | | | | | | | | | | | | | | | 2,219,296 |
| Total | 2,219,296 | | | | | | | | | | | | | | | 2,219,296 |
| Grants | | | | | | | | | | | | | | | | |
| From State Sources | 2,232,724 | | | | | | | | 5,393,554 | | | 3,335,423 | | 4,176,164 | | 15,137,865 |
| From Federal Sources | 1,308,051 | | 6,872,006 | | | 294,580 | | | 14,649,102 | | 12,646,992 | 19,908,874 | 843,256 | 6,852,371 | | 63,375,232 |
| From Other Sources | | | | | | | | | | | | 992,086 | | | | 992,086 |
| Grant To Governmental Entities | | | | | | | | | | | | 905,536 | | | | 905,536 |
| Grant To Non-Governmental Ent | | | | | | | | | | | | 125,700 | | | | 125,700 |
| Total | 3,540,776 | | 6,872,006 | | | 294,580 | | | 20,042,656 | | 12,646,992 | 25,267,620 | 843,256 | 11,028,535 | | 80,536,419 |
| Benefits & Claims | | | | | | | | | | | | | | | | |
| To Individuals | 67,282,342 | | 32,155,035 | | 215,466,164 | | 14,610,324 | 576,885,220 | 65,787,565 | | | 3,888,541 | | 248,819,509 | | 1,224,894,701 |
| From State Sources | | | | | | | | | | | | 1,275 | | 30,095 | | 31,370 |
| From Federal Sources | | | | | | | | | 200,472,120 | | | 10,214,231 | | | | 210,686,351 |
| Insurance Payments | 1,097 | | 1,000 | | | | | | | | | | | | | 2,097 |
| Total | 67,283,439 | | 32,156,035 | | 215,466,164 | | 14,610,324 | 576,885,220 | 266,259,686 | | | 14,104,047 | | 248,849,604 | | 1,435,614,519 |
| Transfers-out | | | | | | | | | | | | | | | | |
| Fund transfers | 1,904,891 | 6,525,772 | 137,688 | | 958,899 | 31,065 | | 10,107,322 | 3,226,590 | | | | | 3,378,807 | | 26,271,034 |
| Total | 1,904,891 | 6,525,772 | 137,688 | | 958,899 | 31,065 | | 10,107,322 | 3,226,590 | | | | | 3,378,807 | | 26,271,034 |
| Debt Service | | | | | | | | | | | | | | | | |
| Bonds | 1,914,789 | | | | 1,023,118 | | | | | | | | | | | 2,937,906 |
| Loans | 105,658 | | | | 37,932 | | | | | | | | | 61,716 | | 205,306 |
| Capital Leases | | | 1,503 | | | | | | | | | | | 4,629 | | 6,131 |
| Installment Purchases | 2,117 | 5,675 | | | | | | | | | | | | | | 7,792 |
| Total | 2,022,563 | 5,675 | 1,503 | | 1,061,050 | | | | | | | | | 66,345 | | 3,157,136 |
| Total Expenditures & Transfers-Out | $ 129,975,196 | $ 7,143,062 | $ 70,866,352 | $ 15,734,797 | $ 245,702,001 | $ 1,188,890 | $ 28,217,571 | $ 616,339,102 | $ 346,364,447 | $ 10,161 | $ 12,956,242 | $ 68,597,609 | $ 8,028,121 | $ 284,581,605 | $ 22,466,089 | $ 1,858,171,245 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | | | | | | | |
| General Fund | $ 64,569,081 | $ 538,463 | $ 38,821,777 | $ 3,816,632 | $ 75,731,205 | $ 207,885 | $ 5,630,548 | $ 123,359,341 | $ 34,165,919 | $ 1,010 | $ 43,076 | $ 2,894,259 | $ 2,023,459 | $ 64,187,743 | $ (611,959) | $ 415,378,439 |
| State Special Revenue Fund | 17,857,057 | (18,660) | 2,001,628 | 1,272,874 | 7,859,047 | 302,765 | 948,891 | 82,102,540 | 5,041,077 | (3) | (16) | 15,399,600 | 385,327 | 39,527,857 | (151,010) | 172,528,973 |
| Federal Special Revenue Fund | 45,559,871 | 97,487 | 29,607,003 | 10,645,291 | 161,088,631 | 653,241 | 21,638,132 | 410,877,221 | 303,179,915 | 9,154 | 12,913,182 | 50,303,749 | 5,619,335 | 180,866,005 | 21,541,884 | 1,254,600,101 |
| Debt Service Fund | 1,989,186 | | | | 1,023,118 | | | | | | | | | | | 3,012,304 |
| Capital Projects Fund | | | 435,944 | | | | | | 3,977,537 | | | | | | 1,687,174 | 6,100,655 |
| Permanent Fund | | 6,525,772 | | | | 25,000 | | | | | | | | | | 6,550,772 |
| Total Expenditures & Transfers-Out | 129,975,196 | 7,143,062 | 70,866,352 | 15,734,797 | 245,702,001 | 1,188,890 | 28,217,571 | 616,339,102 | 346,364,447 | 10,161 | 12,956,242 | 68,597,609 | 8,028,121 | 284,581,605 | 22,466,089 | 1,858,171,245 |
| Less: Nonbudgeted Expenditures & Transfers-Out | 5,274,464 | (1,395,263) | 6,366,254 | 4,526,830 | 3,519,848 | (5,483,153) | 961,103 | 27,006,261 | 23,957,931 | (1,018,142) | (9,737,744) | 2,595,568 | (460,576) | 5,112,034 | (35,891,411) | 25,334,004 |
| Prior Year Expenditures & Transfers-Out Adjustments | (2,863,300) | 26,918 | (1,023,260) | 42,845 | (1,093,230) | 50,864 | (276,777) | (16,615,402) | (2,227,754) | (3,228) | (585,029) | (288,869) | 13,864 | 3,055,176 | (634,611) | (22,421,794) |
| Actual Budgeted Expenditures & Transfers-Out | 127,564,032 | 8,511,407 | 65,523,359 | 11,165,122 | 243,275,383 | 6,621,180 | 27,533,245 | 605,948,243 | 324,634,271 | 1,031,531 | 23,279,015 | 66,290,909 | 8,474,833 | 276,414,396 | 58,992,112 | 1,855,259,035 |
| Budget Authority | 133,372,730 | 9,000,055 | 66,304,084 | 11,541,640 | 256,295,562 | 7,065,069 | 29,078,653 | 631,355,754 | 435,664,687 | 1,060,787 | 26,845,177 | 74,671,405 | 9,635,448 | 280,817,291 | 97,617,515 | 2,070,325,857 |
| Unspent Budget Authority | $ 5,808,698 | $ 488,648 | $ 780,726 | $ 376,518 | $ 13,020,180 | $ 443,889 | $ 1,545,409 | $ 25,407,511 | $ 111,030,416 | $ 29,256 | $ 3,566,162 | $ 8,380,496 | $ 1,160,615 | $ 4,402,895 | $ 38,625,403 | $ 215,066,822 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | | | | | | | |
| General Fund | $ 615,963 | $ 105,683 | $ 164,860 | $ 24,198 | $ 459,931 | $ 26,471 | $ 52,301 | $ 3,861,421 | $ 187,482 | $ 7,643 | $ 178,180 | $ 33,285 | $ 8,039 | $ 798,179 | $ 934,606 | $ 7,458,241 |
| State Special Revenue Fund | 2,264,842 | 57,819 | 89,672 | 100,802 | 62,134 | 103,823 | 795,866 | 763,426 | 68,454 | 4,512 | 32,951 | 333,385 | 531,545 | 137,467 | 77,380 | 5,424,079 |
| Federal Special Revenue Fund | 2,927,893 | 325,147 | 526,193 | 251,518 | 12,498,115 | 313,596 | 697,242 | 20,782,664 | 110,774,480 | 17,101 | 3,355,031 | 8,013,826 | 621,031 | 3,467,250 | 29,972,311 | 194,543,396 |
| Capital Projects Fund | | | | | | | | | | | | | | | 7,641,106 | 7,641,106 |
| Unspent Budget Authority | $ 5,808,698 | $ 488,648 | $ 780,726 | $ 376,518 | $ 13,020,180 | $ 443,889 | $ 1,545,409 | $ 25,407,511 | $ 111,030,416 | $ 29,256 | $ 3,566,162 | $ 8,380,496 | $ 1,160,615 | $ 4,402,895 | $ 38,625,403 | $ 215,066,822 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

| | Addictive & Mental Disorders | Business & Financial Services Division | Child & Family Services | Child Support Enforcement | Developmental Services Division | Director's Office | Disability Employment & Transitions | Health Resources Division | Human and Community Services | Management and Fair Hearings | Medicaid and Health Services Management | Public Health & Safety Division | Quality Assurance Division | Senior & Long-Term Care | Technology Services Division | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT | | | | | | | | | | | | | | | | |
| Personal Services | | | | | | | | | | | | | | | | |
| Salaries | $ 24,231,149 | $ 2,463,331 | $ 13,449,636 | $ 6,265,088 | $ 12,329,454 | $ 3,696,610 | $ 5,739,581 | $ 2,003,836 | $ 17,161,039 | $ 629,821 | $ 303,569 | $ 8,229,700 | $ 4,487,239 | $ 7,418,629 | $ 3,685,374 | $ 112,094,056 |
| Hourly Wages | | | | | 30,474 | | | | | | | | | | | 30,474 |
| Employee Benefits | 10,099,381 | 864,384 | 5,165,700 | 2,326,218 | 5,405,127 | 747,707 | 2,165,118 | 706,990 | 7,057,492 | 189,016 | 82,224 | 2,930,152 | 1,627,726 | 3,365,793 | 1,166,460 | 43,899,488 |
| Total | 34,330,530 | 3,327,715 | 18,615,336 | 8,591,306 | 17,765,055 | 4,444,317 | 7,904,699 | 2,710,826 | 24,218,531 | 818,837 | 385,793 | 11,159,852 | 6,114,965 | 10,784,422 | 4,851,834 | 156,024,018 |
| Operating Expenses | | | | | | | | | | | | | | | | |
| Other Services | 4,956,088 | 2,729,707 | 1,373,237 | 432,040 | 4,231,706 | 388,919 | 4,882,563 | 7,896,207 | 4,390,574 | 7,587 | 7,956,723 | 8,792,990 | 573,839 | 4,714,513 | 29,301,832 | 82,628,525 |
| Supplies & Materials | 3,949,477 | 216,990 | 414,647 | 140,552 | 943,464 | 42,038 | 576,673 | 25,547 | 637,339 | 18,361 | 3,111 | 2,292,445 | 81,610 | 1,283,025 | 2,567,845 | 13,193,124 |
| Communications | 350,062 | 868,738 | 561,875 | 347,403 | 127,615 | 140,942 | 359,540 | 190,873 | 522,611 | 6,487 | 2,790 | 1,211,853 | 132,897 | 133,295 | 2,293,480 | 7,250,461 |
| Travel | 178,365 | 4,019 | 623,297 | 3,515 | 349,290 | 22,076 | 193,861 | 6,620 | 307,255 | 4,401 | 5,041 | 636,001 | 281,367 | 74,947 | 119,548 | 2,809,603 |
| Rent | 732,442 | 119,928 | 2,464,600 | 720,714 | 433,230 | 120,956 | 866,021 | 127,953 | 2,494,997 | 65,606 | 5,761 | 560,101 | 503,986 | 544,352 | 265,860 | 10,026,507 |
| Utilities | 761,017 | | 1,933 | | 239,261 | | | | 75,801 | | | 13,340 | 1,417 | (37,686) | | 1,055,083 |
| Repair & Maintenance | 831,870 | 17,110 | 50,419 | 37,006 | 74,775 | 10,456 | 117,810 | 7,926 | 155,475 | 353 | 338 | 115,262 | 5,945 | 559,202 | 221,394 | 2,205,341 |
| Other Expenses | 3,231,792 | (7,261,517) | 5,504,588 | 4,210,023 | 3,322,597 | (4,647,416) | 1,096,074 | 15,759,759 | 19,558,109 | (925,067) | (7,478,828) | 3,014,462 | (508,809) | 2,108,530 | (32,338,588) | 4,645,709 |
| Goods Purchased For Resale | 83,890 | | | | (7,206) | | | | | | | | | | | 76,684 |
| Total | 15,075,003 | (3,305,025) | 10,994,595 | 5,891,253 | 9,714,732 | (3,922,029) | 8,092,542 | 24,014,885 | 28,142,161 | (822,272) | 494,936 | 16,636,454 | 1,072,252 | 9,380,178 | 2,431,371 | 123,891,037 |
| Equipment & Intangible Assets | | | | | | | | | | | | | | | | |
| Equipment | 88,860 | | 32,220 | 22,694 | | | | | 1,025 | 5,239 | | 199,557 | 525 | 111,093 | 199,271 | 660,484 |
| Intangible Assets | | | | | | | | | | | | 24,999 | | | 183,836 | 208,835 |
| Total | 88,860 | | 32,220 | 22,694 | | | | | 1,025 | 5,239 | | 224,556 | 525 | 111,093 | 383,107 | 869,319 |
| Local Assistance | | | | | | | | | | | | | | | | |
| From State Sources | 1,662,615 | | | | | | | | | | | | | | | 1,662,615 |
| Total | 1,662,615 | | | | | | | | | | | | | | | 1,662,615 |
| Grants | | | | | | | | | | | | | | | | |
| From State Sources | 2,078,631 | | | | | | | 35,880 | 5,541,992 | | | 4,864,349 | | 4,432,165 | | 16,953,017 |
| From Federal Sources | 1,403,713 | | 7,096,732 | | | | | | 14,259,975 | | 6,989,608 | 17,986,595 | 629,720 | 6,795,015 | | 55,161,358 |
| From Other Sources | | | | | | | | | | | | 722,739 | | | | 722,739 |
| Grant To Governmental Entities | | | | | | | | | | | | 673,000 | | | | 673,000 |
| Grant To Non-Governmental Ent | | | | | | | | | | | | 119,124 | | | | 119,124 |
| Total | 3,482,344 | | 7,096,732 | | | | | 35,880 | 19,801,967 | | 6,989,608 | 24,365,807 | 629,720 | 11,227,180 | | 73,629,238 |
| Benefits & Claims | | | | | | | | | | | | | | | | |
| To Individuals | 64,953,425 | | 30,379,701 | | 200,940,433 | | 13,036,847 | 531,264,467 | 77,115,015 | | | 4,166,136 | | 242,806,166 | | 1,164,662,190 |
| From State Sources | | | | | | | | | | | | | | 25,280 | | 25,280 |
| From Federal Sources | | | | | | | | | 204,299,392 | | | 9,600,246 | | | | 213,899,638 |
| Insurance Payments | 90,000 | | | | | | | 3,000,000 | | | | | | | | 3,090,000 |
| Total | 65,043,425 | | 30,379,701 | | 200,940,433 | | 13,036,847 | 534,264,467 | 281,414,407 | | | 13,766,382 | | 242,831,446 | | 1,381,677,108 |
| Transfers-out | | | | | | | | | | | | | | | | |
| Fund transfers | 1,892,274 | 6,701,099 | 110,000 | | 984,208 | | 1,850,000 | 9,504,772 | 2,590,071 | | | | 32,695 | 12,842,117 | | 36,507,236 |
| Total | 1,892,274 | 6,701,099 | 110,000 | | 984,208 | | 1,850,000 | 9,504,772 | 2,590,071 | | | | 32,695 | 12,842,117 | | 36,507,236 |
| Debt Service | | | | | | | | | | | | | | | | |
| Bonds | 1,916,076 | | | | 1,021,732 | | | | | | | | | | | 2,937,808 |
| Loans | 229,488 | | | | 74,079 | | | | | | | | | 287,508 | | 591,075 |
| Capital Leases | | | 1,525 | | | | | | | | | | | 5,407 | 91,267 | 98,199 |
| Installment Purchases | 3,629 | 5,675 | | | | | | | | | | | | | | 9,304 |
| Total | 2,149,193 | 5,675 | 1,525 | | 1,095,811 | | | | | | | | | 292,915 | 91,267 | 3,636,386 |
| Total Expenditures & Transfers-Out | $ 123,724,244 | $ 6,729,464 | $ 67,230,110 | $ 14,505,253 | $ 230,500,239 | $ 522,288 | $ 30,884,088 | $ 570,530,830 | $ 356,168,162 | $ 1,804 | $ 7,870,337 | $ 66,153,051 | $ 7,850,157 | $ 287,469,351 | $ 7,757,579 | $ 1,777,896,957 |
| EXPENDITURES & TRANSFERS-OUT BY FUND | | | | | | | | | | | | | | | | |
| General Fund | $ 61,205,349 | $ 84,636 | $ 35,558,202 | $ 2,344,963 | $ 71,803,865 | $ 45,147 | $ 5,177,167 | $ 107,612,872 | $ 34,146,547 | $ 1,153 | $ 143,780 | $ 3,789,697 | $ 1,945,438 | $ 61,324,658 | $ 856,696 | $ 386,040,170 |
| State Special Revenue Fund | 16,615,195 | 24,277 | 2,264,336 | 1,449,025 | 7,856,755 | 174,480 | 2,791,721 | 78,135,888 | 4,446,712 | 21 | (12,876) | 15,066,360 | 631,302 | 40,636,752 | 13,837 | 170,093,785 |
| Federal Special Revenue Fund | 43,987,625 | (80,548) | 29,295,493 | 10,711,265 | 149,817,211 | 302,661 | 22,915,200 | 384,782,070 | 314,224,491 | 630 | 7,739,433 | 47,296,994 | 5,273,417 | 176,341,439 | 6,443,882 | 1,199,051,263 |
| Debt Service Fund | 1,916,075 | | | | 1,022,408 | | | | | | | | | | | 2,938,483 |
| Capital Projects Fund | | | 2,079 | | | | | | 3,350,412 | | | | | | 443,164 | 3,795,655 |
| Permanent Fund | | 6,701,099 | 110,000 | | | | | | | | | | | 9,166,502 | | 15,977,601 |
| Total Expenditures & Transfers-Out | 123,724,244 | 6,729,464 | 67,230,110 | 14,505,253 | 230,500,239 | 522,288 | 30,884,088 | 570,530,830 | 356,168,162 | 1,804 | 7,870,337 | 66,153,051 | 7,850,157 | 287,469,351 | 7,757,579 | 1,777,896,957 |
| Less: Nonbudgeted Expenditures & Transfers-Out | 4,787,790 | (1,360,505) | 5,488,196 | 3,850,135 | 3,360,862 | (4,786,060) | 2,807,866 | 25,162,791 | 20,845,280 | (928,995) | (7,479,591) | 2,470,079 | (538,829) | 14,505,138 | (32,285,400) | 35,898,757 |
| Prior Year Expenditures & Transfers-Out Adjustments | (2,684,268) | (143,938) | 208,946 | 71,937 | (3,907,343) | 90,781 | (288,279) | (17,731,881) | (1,527,532) | 1,103 | (1,113) | (1,072,713) | (19,674) | (3,617,754) | (115,452) | (30,737,180) |
| Actual Budgeted Expenditures & Transfers-Out | 121,620,722 | 8,233,907 | 61,532,968 | 10,583,181 | 231,046,720 | 5,217,567 | 28,364,501 | 563,099,920 | 336,850,414 | 929,696 | 15,351,041 | 64,755,685 | 8,408,660 | 276,581,967 | 40,158,431 | 1,772,735,380 |
| Budget Authority | 129,045,510 | 9,192,046 | 62,399,784 | 11,462,996 | 246,474,976 | 5,464,778 | 28,955,758 | 599,921,519 | 416,155,382 | 967,200 | 27,372,576 | 75,849,855 | 9,494,317 | 279,693,701 | 92,231,648 | 1,994,682,046 |
| Unspent Budget Authority | $ 7,424,788 | $ 958,139 | $ 866,816 | $ 879,815 | $ 15,428,256 | $ 247,211 | $ 591,257 | $ 36,821,599 | $ 79,304,968 | $ 37,504 | $ 12,021,535 | $ 11,094,170 | $ 1,085,657 | $ 3,111,734 | $ 52,073,217 | $ 221,946,666 |
| UNSPENT BUDGET AUTHORITY BY FUND | | | | | | | | | | | | | | | | |
| General Fund | $ 1,006,444 | $ 544,959 | $ 500,826 | $ 741,646 | $ 1,822,878 | $ 93,117 | $ 165,535 | $ 6,777,737 | $ 35,137 | $ 13,746 | $ 108,088 | $ 36,338 | $ 75,607 | $ 811,720 | $ 77,133 | $ 12,810,911 |
| State Special Revenue Fund | 735,490 | 35,951 | 31,572 | 1,509 | 266,824 | 31,939 | 13,523 | 442,513 | 211,677 | 5,906 | 7,764 | 506,562 | 407,555 | 929,848 | 160,341 | 3,788,974 |
| Federal Special Revenue Fund | 5,682,854 | 377,229 | 334,418 | 136,660 | 13,338,554 | 122,155 | 412,199 | 29,601,349 | 79,058,154 | 17,852 | 11,905,683 | 10,551,270 | 602,495 | 1,370,166 | 39,363,982 | 192,875,020 |
| Capital Projects Fund | | | | | | | | | | | | | | | 12,471,761 | 12,471,761 |
| Unspent Budget Authority | $ 7,424,788 | $ 958,139 | $ 866,816 | $ 879,815 | $ 15,428,256 | $ 247,211 | $ 591,257 | $ 36,821,599 | $ 79,304,968 | $ 37,504 | $ 12,021,535 | $ 11,094,170 | $ 1,085,657 | $ 3,111,734 | $ 52,073,217 | $ 221,946,666 |

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-9.

# Department of Public Health and Human Services
## Notes to the Financial Schedules
## For the Two Fiscal Years Ended June 30, 2013

## 1. Summary of Significant Accounting Policies

### Basis of Accounting

The Department of Public Health and Human Services uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the department records:

- Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Fiduciary (Private Purpose Trust and Agency) fund category. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

### Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

#### Governmental Fund Category

- **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- **State Special Revenue Fund** – to account for proceeds of specific revenue sources (other than private-purpose trusts or major capital projects) that

are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include programs such as Child Support Enforcement, cigarette tax expenditures, Public Health Laboratory, Healthy Montana kids, medical marijuana license fees, and third party liability recoveries. The fund also accounts for activity and the Montana Developmental Center, the Montana Mental Health Nursing Care Center, the Montana Chemical Dependency Center and the Montana State Hospital supported by insurance and individual payments.

- **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include federal grants such as Medicaid; Temporary Assistance to Needy Families; Low-Income Home Energy Assistance Program; Weatherization Assistance Program; Vocational Rehabilitation; Child Support Enforcement; Foster Care; Adoption Assistance; Women, Infants and Children; Supplemental Nutrition Assistance Program; Child and adult Nutrition; Children's Health Insurance Plan; social Services Block Grant; Adoption Assistance; Center for Disease Control; Substance Abuse; Prevention and Treatment; and Child Care Development Fund Grant programs.
- **Debt Service Fund** – to account for accumulated resources for the payment of general long-term debt principal and interest. The department accounts for the Montana State Hospital and Montana Developmental Center bond payments in this fund.
- **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The department uses this fund for major information technology systems.
- **Permanent Fund** – to account for financial resources that are permanently restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department accounts for Endowment for Children, Older Montanans Trust and the Tobacco Settlement activity in this fund.

## Fiduciary Fund Category

- **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. The Department private-purpose trust fund is the Montana Mental Health Trust account.
- **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal clearing account activity but these must have a zero balance at fiscal year-end. The majority of the department use of Agency Funds is for child support payments collected on behalf of children and distributed to custodial parents or guardians. Agency Funds also include moneys belonging to foster care children and residents of care facilities.

## 2. General Fund Equity

The negative fund equity in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity for each of the fiscal years ended June 30, 2012, and June 30, 2013.

## 3. Direct Entries to Fund Equity

The department recorded $372,315,415 and $398,303,960 of direct entries to fund equity in the General fund during fiscal years 2011-12 and 2012-13, respectively. Most of the direct entries to fund equity in the General Fund result from entries generated by Statewide Accounting, Budgeting and Human Resources Systems (SABHRS) to reflect the flow of resources with the fund between separate agencies.

Direct entries to fund equity in the Special Revenue, Federal Special Revenue Fund, and Capital Projects funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies. Direct entries to fund equity in the General, State Special Revenue, and Federal Special Revenue Fund funds also include corrections of errors from a previous period that occurred at least two fiscal years prior.

## 4. Nonbudgeted Activity

The department recorded one time Nonbudgeted Revenues and Transfers In of $7,185,000 in the general fund and $3,166,502 in the state special revenue fund in fiscal year 2011-12. Expenditure abatements (negative amounts) in the "Other Expenses" Operating Expenses account category are related to the department's cost allocation plan for fiscal years 2011-12 and 2012-13.

## 5. Prior year Activity

Prior Year Expenditures and Transfers-Out Adjustments include the cancelation of unused expenditure liabilities estimated for department benefit programs, the recognition of expenditures above estimated liabilities and standard prior year expenditure adjustments.

Prior Year Revenues and Transfers-In Adjustments include the cancelation of federal special revenue fund revenue accruals estimated for department benefit programs, the recognition of revenues above estimated accruals and standard prior year revenue adjustments.

# Department of Public Health and Human Services

## Department Response

MONTANA DPHHS
Healthy People. Healthy Communities.
Department of Public Health & Human Services

# Department of Public Health and Human Services

111 N Sanders ♦ Helena, MT 59601

**Steve Bullock, Governor**

**Richard H. Opper, Director**

RECEIVED
OCT 31 2013
LEGISLATIVE AUDIT DIV.

October 31, 2013

Ms. Tori Hunthausen
Legislative Auditor
Office of the Legislative Auditor
State Capitol, Room 160
Helena, Montana 59620-1705

Re: Financial Compliance Audit 2013

Dear Ms. Hunthausen:

Thank you for the opportunity to submit a response to the Financial Compliance Audit for the Two Fiscal Years Ended June 30, 2013. The Department of Public Health and Human Services (department) has implemented corrective action plans for 11 of the 15 recommendations. Staff will continue to evaluate and implement the remaining recommendations in a cost effective manner.

Following you will find our response to each recommendation identified in the report.

1. **We recommend the department:**

a. **Issue reports of fiscal reviews to contractors on a timely basis to facilitate corrective action.**
b. **Request corrective action plans from Temporary Assistance for Needy Families contractors as required by department fiscal review procedures.**

Response: Concur

The Human and Community Service Division is current with all outstanding fiscal monitoring reports and has requested one corrective action plan. The division will continue updating operating and oversight procedures and is increasing available resources by hiring a division contract/procurement lead specialist to assure consistency across the division related to contract procedures including monitoring and follow up.

Status: Implemented

2. **We recommend the department limit payments to those supported as valid claims and for which the department has contract liability.**

Response: Concur

The department agrees to limit payments to those for which the department has contractual liability. In the extremely rare occasion in which the department must do otherwise, the situation will be fully evaluated and decisions approached with careful deliberation, sufficient documentation and senior management approval.

Status: Implemented

3. **We recommend the department allocate personnel resources to maintain work program reviews and supervisor eligibility reviews in the Temporary Assistance with Needy Families program in accordance with department policy and federal regulation.**

   Response: Concur

   The department concurs and has re-instated both reviews.

   Status: Implemented

4. **We recommend the department reimburse the federal government for unallowable TANF cash assistance payments caused by department errors.**

   Response: Concur

   The department will reimburse the federal government for any expenditure that the Temporary Assistance for Needy Families program requires by federal law and/or program instruction.

   Status: Implemented

5. **We recommend the department improve oversight of contract payments by increased awareness of whether billed costs are necessary and reasonable to meet contract terms.**

   Response: Concur

   The department concurs and the Human and Community Services Division will provide clear direction to affected contractors that required agreed upon procedures engagements are not billable to the department. In addition we will incorporate that expectation into future contract reviews.

   Status: Implemented

6. **We recommend the department comply with its policy for access reviews on Shared Fiscal Services Layer within the Combined Health Information and Medicaid Eligibility System.**

   Response: Concur

   The department has completed the access reviews and developed procedures to ensure ongoing timely completion.

   Status: Implemented

7. **We recommend the department develop and implement procedures to ensure applicants are enrolled in the category of the Healthy Montana Kids program for which they are eligible in compliance with federal regulations and the state plan.**

   Response: Concur

   The department will review the existing controls and the Children's Health Insurance State Plan Program to ensure we have sufficient controls throughout the eligibility determination and subsequent review processes sufficient to provide reasonable assurance that applicants are enrolled in the correct Healthy Montana Kids category.

   Status: Being Implemented

8. **We recommend the department comply with federal law by expending Children's Health Insurance Program bonus payments on costs allowable to the Children's Health Insurance Program fund.**

   Response: Concur

   The department will continue to comply with federal law and will work with the Centers for Medicaid and Medicare (CMS) to ensure expenditures from the Children's Health Insurance Bonus continue to be allowable.

   Status: Implemented

9. **We recommend the department implement controls to monitor whether sponsoring organizations disburse funds to day-care centers within five days as required by federal regulations.**

   Response: Concur

   The Human and Community Services Division enhanced monitoring tools to include the request and confirmation of fund distributions.

   Status: Implemented

10. **We recommend the department**
    a. **Enhance review of formula rebate invoice to ensure amounts charged to providers are correct.**
    b. **Repay the formula provider the $22,223 excess billed.**

    Response: Concur

    The Public Health and Safety Division has enhanced controls surrounding the creation of rebate invoices and provided the affected formula provider a credit on the current invoice.

    Status: Implemented

11. **We recommend the department follow established control procedures to verify subrecipient invoices are reasonable.**

    Response: Concur

    The Child and Family Services Division will continue to follow the established control procedures and has reinforced the expected supervisory review.

    Status: Implemented

12. **We recommend the department complete and document supervisory reviews of fund reconciliations as required by department policy.**

    Response: Concur

    The Business and Financial Services Division will continue to follow the established control process and has reinforced the performance standards including expectations for resolving staffing vacancies.

    Status: Implemented

13. **We recommend the department enforce its internal control procedures to ensure with federal suspension and debarment requirements.**

    Response: Concur

    The department is pursuing options for centralizing this review and automating the documentation process to better enforce compliance with federal suspension and debarment requirements.

    Status: Being Implemented

14. **We recommend the department prepare strategic plans with increased use of quantifiable outputs or outcomes to measure performance in reaching program goals and objectives as required by state law.**

    Response: Concur

    The department will continue to improve the quality and value of our strategic planning, monitoring and reporting.

    Status: Being Implemented

15. **We recommend the department implement procedures to ensure that unencumbered alcohol tax funds from the counties are identified and recovered in compliance with state law.**

    Response: Concur

The department will develop and implement a process for county certification of alcohol treatment, rehabilitation and prevention expenditures and encumbrances.0

Status: Being Implemented

**16. We recommend the department implement procedures to ensure that unencumbered alcohol tax funds from the counties are identified and recovered in compliance with state law.**

**a. Implement procedures to track construction projects at the state facilities.**

**b. Record building and improvement assets on the state's accounting records.**

**c. Establish and account to receive federal funds and transfer the receipts to the Architecture and Engineering Division to cover construction expenditures expenses at its Eastern Montana Veteran's Home Facility.**

Response: Concur

The department is reviewing existing construction projects and will record all assets into the state accounting records. An account has been established to record activities related to the identified construction activities and processes are being reviewed to ensure all accounting activities are recorded timely.

Status: Being Implemented

If you have any questions regarding our response please contact Marie Mathews, Operations Services Branch Manager at 406 (444-2754).

Sincerely,

for Richard H. Opper

Richard H. Opper, Director
Department of Public Health and Human Services