



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Public Health and Human Services

*For the Two Fiscal Years Ended
June 30, 2015*

OCTOBER 2015

LEGISLATIVE AUDIT
DIVISION

15-14

FINANCIAL-COMPLIANCE AUDITS

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October 2015

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, 2015. Included in this report are ten recommendations related to Montana Mental Health Settlement Trust, computer system access, and internal controls over and compliance with federal regulations.

During the audit we focused our audit efforts primarily on the department's activity related to its federal programs. The department receives over \$1 billion dollars each year from the federal government, primarily related to public assistance programs. Other testing included, but was not limited to, transactions related to contracted services, personal services, and benefits and claims expenditures. This included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and federal regulations.

The department's written response to the audit recommendations is included in the audit report on page C-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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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
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Department of Public Health and Human Services..... C-1

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Services**

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Bob Runkel, Economic Security Services Branch Manager

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Becky Schlauch, Administrator, Business and Financial Services Division

Sarah Corbally, Administrator, Child and Family Services Division

Chad Dexter, Administrator, Child Support Enforcement Division

Jamie Palagi, Administrator, Human and Community Services Division

Rebecca de Camara, Administrator, Development Services Division

Duane Preschinger, Administrator, Health Resources Division

Stuart Fuller, CIO/Administrator, Technology Services Division

Todd Harwell, Administrator, Public Health and Safety Division

Roy Kemp, Interim Administrator, Quality Assurance Division

Kelly Williams, Administrator, Senior and Long-Term Care Division

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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, 2015

OCTOBER 2015

15-14

REPORT SUMMARY

The Department of Public Health and Human Services manages various medical, economic assistance, and public health programs to serve Montanans. These services account for around 80 percent of the department's operations. The 2015 Legislature voted to expand Medicaid. If approved by the federal government, the law will expand Medicaid to tens of thousands of Montanans and result in increased expenditures and case load as early as fiscal year 2016. The 2015 Legislature also passed a bill to close the Montana Developmental Center (MDC). Most residents of MDC will be transitioned into community based services by December 31, 2016.

Context

The Department of Public Health and Human Services (department) expenditures during the past fiscal year included \$1.5 billion in federal funds. Twelve federal programs comprised over 90 percent of the federal expenditure total with Medicaid and the Supplemental Nutrition Assistance Program (SNAP) comprising around 70 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 ten recommendations primarily related to improving internal controls and compliance with federal laws and regulations. Issues are directed towards 8 of

the 12 largest federal programs and primarily relate to reporting.

The report also includes a recommendation related to the department not receiving funds in a timely manner resulting from a conflict of interest and excessive access to a department's computer system.

The report results in a modified opinion of the department's financials resulting from an error in recording federal revenue.

Recommendation Concurrence	
Concur	9
Partially Concur	1
Do Not Concur	0
Source: Agency audit response included in final report.	

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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, 2015. The objectives of the audit were to:

1. Determine whether the department complied with selected applicable state laws and federal regulations during the audit period.
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 for each of the fiscal years ended June 30, 2014, and 2015.

During the audit we focused our audit efforts primarily on the department's activity related to its federal programs. The department receives over \$1 billion dollars each year from the federal government, mainly related to public assistance programs. Many of these federal programs have requirements for the department to match a percentage of federal funds with state funds. Our audit efforts over the federal programs also included these state dollars. Other testing included, but was not limited to, transactions related to contracted services, personal services, and benefits and claims. This included understanding the department's internal control policies and procedures, performing analytical procedures, and reviewing accounting transactions. We also reviewed and tested compliance with selected state laws and federal regulations.

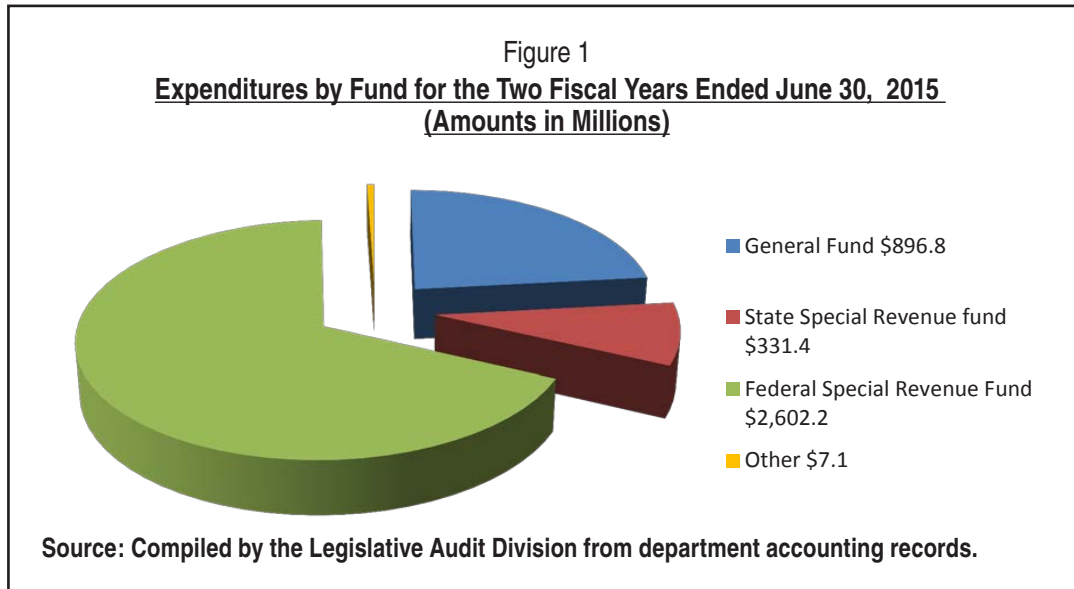
This report contains ten recommendations to the department. These recommendations address areas where the department can improve internal controls and compliance with state laws and federal regulations.

Background

The department spent approximately \$1.95 billion in fiscal year 2014-15, and \$1.89 billion in fiscal year 2013-14, 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.

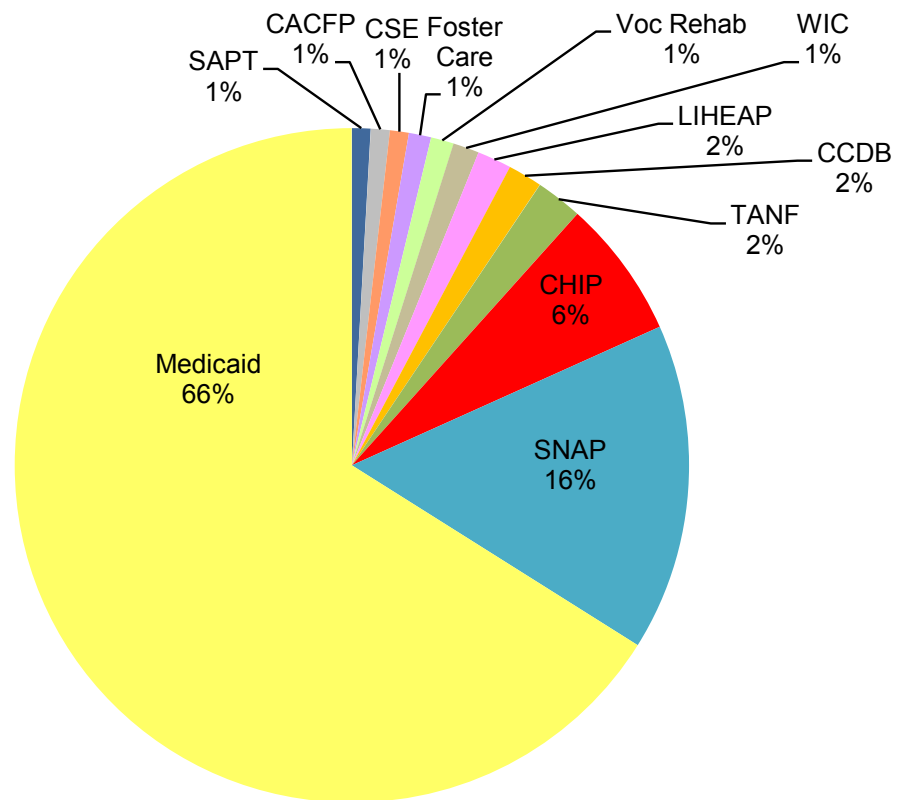
Total expenditures by fund for the two fiscal years ended June 30, 2015, are identified in Figure 1 below. Benefits and claims expenditures account for approximately 78 percent of the total expenditures.



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 \$1.6 billion and \$13.2 million for the two fiscal years ended June 30, 2015, as major federal programs. We performed tests to determine whether the department complied with certain federal regulations in administering these programs. Figure 2 (see page 3) identifies these programs and the related expenditures recorded on the state's accounting records.

As shown on page 3, Temporary Assistance for Needy Families (TANF) is a major federal program which spent approximately \$54 million during the audit period. Our audit relied on the Combined Healthcare Information and Montana Eligibility System–Enterprise Architecture (CHIMES-EA) Audit report (15DP-01) for the testing of controls over the computer system that is used to determine TANF recipient eligibility and benefit amounts. That report resulted in 17 recommendations to the department, and in summary, indicated controls need to be strengthened to increase the system's accuracy and efficiency. Since the department relies on this system as a control for determining eligibility and benefit amounts, the 15DP-01 report should be considered in conjunction with this report to obtain a full understanding of the scope of work completed over the TANF program and the resulting findings.

Figure 2
Federal Program Expenditures for the Two Fiscal Years Ended June 30, 2015



Substance Abuse, Prevention, and Treatment (SAPT)	\$13,214,927
Child and Adult Care Food Program (CACFP)	\$21,947,796
Child Support Enforcement (CSE)	\$21,966,086
Foster Care (FC)	\$25,913,055
Vocational Rehabilitation Grant to States (Voc Rehab)	\$26,504,074
Women, Infants, and Children (WIC)	\$30,288,846
Low Income Energy Assistance for Needy Family Program (LIHEAP)	\$39,625,844
Child Care Development Block (CCDB)	\$39,871,677
Temporary Assistance for Needy Family Program (TANF)	\$54,042,362
Children's Health Insurance Program (CHIP)	\$160,605,567
Supplemental Nutrition Assistance Program (SNAP)	\$380,095,976
Medicaid	\$1,600,513,690
Total	\$2,414,589,900

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

Changes in Social Services

Benefits and claims expenditures totaled \$2.8 billion in the 2013 biennium and \$3.0 billion in the 2015 biennium, an increase of seven percent. Table 1 below shows changes in case loads for selected programs from 2014 to 2015. The majority of the benefit and claim expenditure increase is related to an increase in Medicaid cases as well as Medicaid costs.

Table 1 <u>Department of Public Health and Human Services Case Load Analysis for TANF, Medicaid, and SNAP</u>			
	June 2014	June 2015	Percent Change
Temporary Assistance for Needy Families (TANF) by individual	3,030	2,936	(3.10%)
Medicaid Title 19 (Physical health)-Unduplicated by case	125,027	136,710	9.34%
Medicaid Mental Health by case	17,021	18,275	7.37%
Supplemental Nutrition Assistance Program (SNAP) by individual	59,280	54,535	(8.00%)

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

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

Organizational Structure

During the two years ended June 30, 2015, 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 (FTE) positions are shown in Figure 3 (see page 8).

The **Director's Office** (46.25 FTE) 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 **Operations Services Branch** (257.33 FTE) includes the Office of Fair Hearings. It also includes the following divisions:

- ♦ The **Business and Financial Services Division** (65.50 FTE) 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, audit coordination, lease management, mail handling, property and records management, accounts payable, and facility reimbursements.

- ♦ The **Quality Assurance Division** (115.23 FTE) monitors and ensures the integrity and cost effectiveness of programs administered by the department. Services include: oversight of health and day-care providers; investigation of allegations of fraud of recipient eligibility affecting Medicaid, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program; identification of parties responsible for paying client medical expenses; oversight of internal audits for department programs; and provide hearings for clients and providers participating in department programs.
- ♦ The **Technology Services Division (TSD)** (63.60 FTE) 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** (1,248.58 FTE) includes the Medicaid Systems Support Program (5.00 FTE). It also includes the following divisions:

- ♦ The **Senior and Long-Term Care Division** (221.05 FTE) 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 **Developmental Services Division** (353.67 FTE) 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** (614.86 FTE) 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** (54.00 FTE) 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** (1,375.41 FTE) includes the following divisions:

- ♦ The **Human and Community Services Division** (501.32 FTE) 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 eligibility determinations, early childhood care, energy assistance, weatherization, emergency shelter, and distribution of United States Department of Agriculture commodities.
- ♦ The **Child Support Enforcement Division** (163.75 FTE) 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** (367.40 FTE) 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** (147.00 FTE) 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** (191.95 FTE) 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.

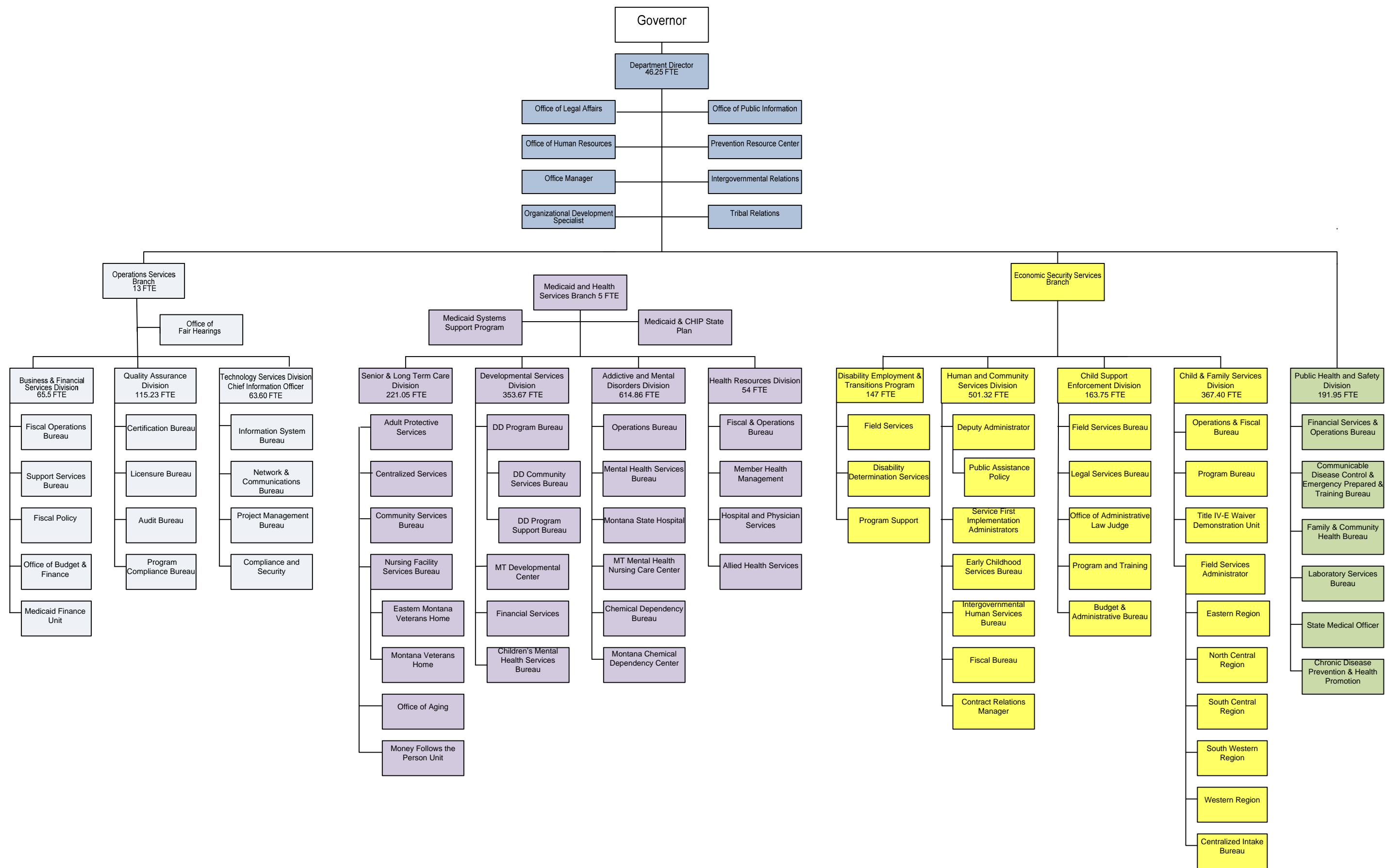
Prior Audit Recommendations

The prior audit for the two fiscal years ended June 30, 2013, contained 16 recommendations. The department implemented 14, partially implemented 1, and did not implement 1.

The partially implemented recommendation is related to following an internal policy which requires a federal debarment certification form for each contract. Our review of contracts during the audit period found five instances where this form was not on file. While the department did not fully implement the recommendation, they have made significant progress and therefore we make no further recommendation this audit.

The recommendation not implemented relates to the recovery of Temporary Assistance to Needy Families (TANF) overpayments that are a result of agency errors. This is repeated in this report at Recommendation #4.

The prior audit also contained a recommendation related to bonus funds the department received under the Children's Health Insurance Program (CHIP). Our audit work determined the federal government did not require any of the payments identified to be paid back and did not consider any of the payments to be unallowable. We considered the recommendation fully implemented.



Chapter II – Findings and Recommendations

Montana Mental Health Settlement Trust Grant

The department did not receive several payments from the Montana Mental Health Settlement Trust.

In February 2010, the state of Montana settled a suit for \$13 million against a company that had marketed and sold an anti-psychotic drug for unapproved uses with potentially significant side effects. Of this settlement, \$9.5 million went into a Mental Health Settlement Trust (trust). The purpose of the trust is to pay for mental health programs or services that meet certain criteria.

The Department of Public Health and Human Services (department) applied for and received a grant from the trust in December 2012 to provide recovery support services in Montana communities. The grant agreement requires the department to submit five progress reports approximately every six months during the grant period. According to the agreement the trust pays the department 30 days after the submission of each progress report.

The department received the initial payment of \$5,000 after beginning to work on the program, and the first payment of \$175,000 after the submission of the first progress report in fiscal year 2014. The department has subsequently submitted three progress reports in June 2014, January 2015, and June 2015, but received no payment from the trust and did not record a receivable for the amount due. The activity is outlined in the table below.

Table 2
Mental Health Settlement Trust Grant Status

	Amount	Submitted	Received Payment
Initial Payment	\$5,000	n/a	Yes
1st Progress Report	\$175,000	Yes	Yes
2nd Progress Report	\$175,000	Yes	No
3rd Progress Report	\$175,000	Yes	No
4th Progress Report	\$175,000	Yes	No
5th Progress Report	\$145,000	due 10/30/15	n/a
Final Report	n/a	due 04/30/16	n/a
Total Grant	\$850,000		

Source: Compiled by the Legislative Audit Division.

The department employee in charge of the grant is also a member of the trust's board. Per the employee, when she requested reimbursement for the grant, the trust put her off and she did not push the issue since the position at the trust that handled the reimbursements experienced turnover around the same time as the requests. The employee's relationship with the trust created a conflict of interest, which resulted in the department not pursuing payments they should have received from the trust. The department did not have internal controls in place to mitigate the risks created by the relationship.

As a result of the department not receiving the requested reimbursements from the trust, they had to pay \$474,798 of expenditures for the grant and obtain an inter-entity loan from the General Fund of the Department of Administration. While the loan was repaid in August 2015, had they received the funds they were due, a loan from the General Fund would not have been necessary.

Based on the expenditures incurred, the department requested reimbursement of \$474,798 from the trust in July 2015, and received the payment in August 2015. However, the department should have requested reimbursement in the amount of \$525,000. Based on the requirements in the grant agreement, the department is entitled to the full payments for the 2nd, 3rd, and 4th progress reports as they had submitted the reports to the trust. As a result, the department is still due \$50,202 from the trust.

RECOMMENDATION #1

We recommend the Department of Public Health and Human Services:

- A. *Develop internal controls to address related party and conflict of interest issues.*
 - B. *Seek \$50,202 from the Montana Mental Health Settlement Trust to which the department is entitled per the grant agreement.*
-

Computer System Access

The department needs to improve access controls to its Agency Wide Accounting and Client System payment system.

Department personnel use an information system called Agency Wide Accounting and Client System (AWACS) to generate vendor and provider payments. We reviewed access control to several of the modules within the AWACS information system and

noted excessive user access to add, change, or delete vendor information. For example, 26 employees have been granted roles that allow access to set up vendors for just the department through AWACS. Likewise, of the department's 3,000 employees, approximately 500 employees have been assigned roles that allow them to add, change, or delete vendor address information and approximately 370 can modify vendor payment information.

For information systems, policy states access to program documentation, data files, programs and computer hardware is limited to the extent required by an individual's job duties. Access should be granted to prevent an individual or small group of individuals from initiating, approving, undertaking and reviewing the same action.

Department management stated that while the roles assigned to employees grant access to the database, they do not have the software or screens to actually make changes. Upon review of actual changes made during fiscal years 2014 and 2015, the department found almost all changes were made by the Business and Financial Services Division and no changes were inappropriate. Department computer staff indicated that while employees do not have the software or screens, employees still have the access rights to the database and not having the screens would not preclude an employee from gaining access to the database information and making changes.

Extensive or unintended access to AWACS increases the department's risk of processing erroneous or fraudulent transactions.

RECOMMENDATION #2

We recommend the Department of Public Health and Human Services periodically review Agency Wide Accounting and Client System user access role categories to determine appropriateness and remove unnecessary access.

Errors in Recording Financial Activity

The department's internal controls were not effective in detecting significant errors recorded on the accounting records.

Section 17-1-102(4), MCA, requires all necessary transactions be recorded by fiscal year-end to properly present the financial activity of the department. State accounting policy describes the design of internal control policies to help ensure the reliability

of accurate financial reporting and the fair presentation of financial information. We noted the department's internal control procedures did not detect errors in revenues or account balances as described below.

Budgeted and Nonbudgeted Revenues

Over ten years ago, the Supplemental Nutrition Assistance Program (SNAP) used paper coupons to distribute food stamp benefits. Under the coupon system, state accounting policy required the activity to be recorded as nonbudgeted revenue on the department's financial schedules. When the department began providing benefits on electronic benefit cards (EBT) they continued to report revenues as nonbudgeted which is no longer appropriate. Because EBT cards result in a cash transaction from the treasury, the revenue should be budgeted.

As a result, Nonbudgeted Revenues in the Federal Special Revenue Fund are overstated in fiscal year 2014 and fiscal year 2015 by \$181,958,070 and \$173,604,793, respectively. Actual Budgeted Revenues in the Federal Special Revenue Fund are understated in fiscal years 2014 and 2015 by the same amounts.

Classification of Inter-Entity Loans

The department secures inter-entity loans at fiscal year-end to cover short term cash needs in accordance with state accounting policy. The need for cash generally occurs because claims must be paid under federal grant programs in advance of reimbursement from federal government. These short-term loans from the state treasury are approved by the Department of Administration (DofA) and repaid upon receipt of reimbursement from the federal government, which is usually within 45 days of fiscal year-end. In some cases, because of ongoing business needs, the department has secured longer term inter-entity loans on a more or less permanent basis under agreement with DofA to eliminate the need for requesting a loan every month.

State accounting policy defines short- and long-term loans. Short-term loans are those where cash is borrowed from one fund and repaid within one year from the date the loan was approved. Conversely, long-term loans are those that are repaid in more than one year.

The department recorded short-term loans to provide operating cash for several funds, but primarily for the Medicaid program funds. The Medicaid program is funded with both federal and state dollars. However, in order to receive federal funds, the department must make the expenditures and then request reimbursement from the federal government in a manner that does not allow the state to earn interest on the federal reimbursement prior to the funds leaving the state treasury. Since the Medicaid

program expends close to \$800 million each year, a lag in receiving reimbursement from the federal government will result in a shortage of cash to pay benefits. The department uses the loans to ensure cash is available to pay benefits as needed.

We reviewed the accounting records and found, since fiscal year 2011, the department carried a loan balance of \$21,550,000 for one Medicaid fund. Several other funds also have balances reoccurring for several years. While the accounting records also show the loans are repaid annually, they are then subsequently reestablished indicating the substance of the loan is a long-term operating loan that will exist for as long as the department operates the Medicaid program, rather than a short-term loan to cover a temporary cash deficit.

As a result, on the department's financial records, short-term loans are overstated and long-term loans are understated by \$22,900,000 at June 30, 2015.

RECOMMENDATION #3

We recommend the Department of Public Health and Human Services record federal Supplemental Nutrition Assistance Program revenues as budgeted and classify loan activity in accordance with state policy.

Internal Controls Over Federal Programs and Federal Compliance

Federal regulations require the department to maintain internal controls over federal programs that provides reasonable assurance that the department is managing federal awards in compliance with laws, regulations, and the provisions of contract or grant agreements that could have a material effect on each of its federal programs. Internal controls are processes and procedures that provide management with reasonable assurance it will achieve its objectives related to compliance with laws and regulations.

Federal regulations further require the department to comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

The following sections discuss issues where the department either did not comply with federal regulations or can improve internal controls to enhance compliance with federal regulations for specific programs. In some cases we noted the department did not comply and also needs to improve controls.

Benefit Payment Errors

The department did not seek reimbursement for benefit overpayments caused by department errors.

Under the TANF Program, individual recipients may receive a monthly TANF assistance benefit to which they are not entitled. The federal government refers to this as an overpayment. Overpayments can result from a client making an error or not following program requirements or errors in the department's procedures to determine eligibility or calculate the benefit amount.

Federal policy, published June 2006, states the department should attempt to recover overpayments either by recouping it from the recipients through a reduction in their payments in one or more future months or by collecting cash repayments from the recipients under a lump sum or periodic repayment plan.

Department policy states it will not seek return of overpayments from recipients when a department error caused the overpayment. Department personnel stated the federal policy says the department "should", rather than "must" attempt to recover. Department personnel further stated, the federal Social Security Program Operations Manual System, effective January 31, 2005, indicates the state "may," not "should," recover overpayments.

While we recognize the inconsistent federal guidance, the most recent policy states "should" which indicates the department ought to attempt to recover these overpayments. Department personnel also noted they do not want to cause a financial burden to its clients as a result of department errors.

This is a systemic issue and overpayments are continuing to grow. Because they are ineligible federal expenditures, we question these costs. We reported this issue in our prior financial-compliance audit report and we determined this recommendation was not implemented. Department personnel stated that some of the overpayments were system related, but the majority were related to the state not taking action on changes in a timely manner. Staff indicated they corrected the system related errors that impacted payment calculations in 2013, which would reduce the department generated overpayments. The federal government followed up on this finding as well, and noted the department indicated the system related eligibility issues were resolved as of November 2013. As a result the federal government did not require recovery of the prior questioned costs. Overpayments from department errors were \$161,000 in fiscal year 2013, the year Combined Healthcare Information and Montana Eligibility

System (CHIMES) was implemented. We noted that overpayments did not decline in fiscal years 2014 or 2015. In calendar year 2014, the department issued \$15 million in benefits of which \$192,538 were department-caused overpayments. In calendar year 2015, through August, \$10 million in benefits were issued and \$133,872 were overpayments. No action was taken to collect these department generated overpayments and therefore we question these costs of \$326,410.

RECOMMENDATION #4

We recommend the Department of Public Health and Human Services comply with federal regulations by attempting to recover Temporary Assistance for Needy Families cash assistance overpayments caused by department errors.

Medicaid and Children's Health Insurance Program (CHIP) Reporting

The department did not have adequate internal controls in place over federal reporting for Medicaid and CHIP.

We reviewed the federal CMS-64 report preparation and certification process. The quarterly CMS-64 reports are a summary of expenditures and are the major report submitted to the federal government for Medicaid. The report also contains data pertaining to the CHIP program. The controls in place to ensure the completeness and accuracy of the CMS-64 reports were not operating effectively in fiscal year 2015.

The department submitted the reports, which included errors, for the quarters ended December 31, 2014, and March 31, 2015, at the direction of federal officials to be certified. The reports were subsequently uncertified by federal officials to allow for corrections.

The initial errors were related to a change in how waivers are to be reported and occurred in the report for the quarter ended December 31, 2014. These errors were not corrected prior to the preparation of the report for the next quarter, which caused errors in that report in the prior period data. The report for the quarter ended March 31, 2015, contained additional errors as well. The errors in both reports resulted from changes in the manner in which data was required to be entered into the federal reporting system, insufficient training of new staff, and a lack of adequate written procedures detailing preparation of the CMS-64 reports.

As of late August, the department corrected and recertified the reports for the quarters ended December 31, 2014, and March 31, 2015, which was six and three months, respectively, since the initial certifications. Failure to correct errors in a timely fashion could lead to reliance on the inaccurate or incomplete data reported and to noncompliance with federal reporting requirements.

RECOMMENDATION #5

We recommend the Department of Public Health and Human Services:

- A. *Reevaluate the internal controls in place to ensure completeness and accuracy of CMS-64 reporting.*
 - B. *Develop sufficient written procedures detailing the CMS-64 report preparation process.*
 - C. *Ensure staff who prepare the CMS-64 report are properly trained.*
-

Internal Control Deficiencies in Cash Management for the Medicaid and CHIP

The department failed to complete monthly Cash Management Improvement Act reconciliations consistently.

The Cash Management Improvement Act (CMIA) provides requirements and procedures for the transfer of federal financial assistance from federal agencies to the states. The objective of the CMIA is to ensure states do not draw funds too early from the federal government whereby earning interest on the funds or too late whereby the state is losing interest. The department performs CMIA reconciliations on a monthly basis for funds covered under the CMIA to ensure revenue is recovered and expenditures are recorded correctly to ensure compliance with the CMIA.

We reviewed four Medicaid draws and three CHIP draws for a total of seven draws for the two programs. Of the seven draws reviewed, we noted monthly CMIA reconciliations for the funds involved in three draws were not completed for the month in which the draw occurred. This issue is systemic, as the department has not completed any CMIA reconciliations for Medicaid and CHIP since December 2014.

Due to the CMIA reconciliations not being performed on a monthly basis, the risk of errors in cash management increases, which could result in the state paying the federal government interest earned or the state losing interest earnings for funds not

requested. In fiscal years 2014 and 2015, these two federal programs spent \$1.7 billion. If the cash requests for these expenditures are not according to the CMIA, interest earned or lost could be significant.

Department personnel stated the reconciliations have not been performed since December 2014 due to staff turnover and insufficient training.

RECOMMENDATION #6

We recommend the Department of Public Health and Human Services:

- A. *Ensure staff who prepare the Cash Management Improvement Act (CMIA) reconciliations are properly trained.*
 - B. *Complete CMIA reconciliations on a monthly basis.*
-

Automatic Data Processing (ADP) Monitoring

Two ADP systems did not have a biennial review of the ADP system security installations used to administer Medicaid as required by federal regulations.

The Medicaid program is highly dependent on extensive and complex computer systems that include controls for ensuring the proper payment of Medicaid benefits. Federal regulations require the department to establish and maintain a program for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new systems and existing systems when significant changes occur. The department must also review all their ADP systems involved in the administration of the Medicaid program on a biennial basis. The reviews must include an evaluation of physical and data security operating procedures and personnel practices. The reports of their biennial ADP system security reviews are required to be maintained.

The department identified four main ADP systems that are integral to administering the Medicaid program. Of these, two had a security review we were able to review. The other two had a draft security plan, but not a review that documented an evaluation of procedures and practices. Department personnel stated that as of June 2015 they had hired a contractor to complete security risk assessments on 20 department applications. The department will then prioritize all the systems and complete annual reviews for the major fiscal and eligibility systems. The department's plan for annual reviews are on a department wide basis meaning many of the 20 applications to be assessed are not specific to Medicaid for which this recommendation applies.

RECOMMENDATION #7

We recommend the Department of Public Health and Human Services complete risk analyses and biennial reviews over Medicaid Automatic Data Processing systems as required by federal regulations.

Foster Care Subrecipient Determination

The department incorrectly determined its Foster Care subrecipients as vendors rather than subrecipients.

The department provides subawards to seven tribal organizations for Title IV-E Foster Care services. However, the department categorized these tribal organizations as vendors, rather than subrecipients. As a result, the department failed to follow federal regulations that require subrecipients to be informed of federal award information. Failure to provide subrecipients with the required information increases the risk of their noncompliance with federal requirements.

Federal regulations define a vendor as a seller providing goods or services that are required for the conduct of a federal program. The goods or services may be for an organization's own use or for the use of beneficiaries of the federal program. A subrecipient is defined as a nonfederal entity that expends federal awards received from a pass-through entity, such as the State, to carry out a federal program.

Department personnel stated the tribes are providing a service which resembles a vendor relationship. Our review of federal regulations indicated the tribes use the funds to carry out the Foster Care program and are subject to federal regulations. As a result, tribes meet the definition of subrecipients.

Federal regulations require the state to monitor subrecipients to ensure they are following federal regulations. Without classifying the tribes as subrecipients, this monitoring did not occur.

RECOMMENDATION #8

We recommend the Department of Public Health and Human Services categorize the tribal organizations as subrecipients of the Foster Care program and comply with all federal regulations regarding subrecipients.

Reporting for the Federal Funding Accountability and Transparency Act

The department failed to complete subaward reports under the Federal Funding Accountability and Transparency Act for multiple federal programs.

The department is required by federal regulation to submit a Federal Funding Accountability and Transparency Act (FFATA) subaward report whenever they obligate at least \$25,000 in federal funds to a subrecipient.

FFATA reporting at the department in fiscal years 2014 and 2015 was incomplete for multiple major federal programs. For each program, Table 3 below details the number of subaward reports that should have been submitted each year and the number that were not submitted:

Table 3 FFATA Reporting Summary				
Federal Program (CFDA)	Fiscal Year 2014		Fiscal Year 2015	
	Required	Not Submitted	Required	Not Submitted
WIC	24	24	24	5
LIHEAP	39	39	39	39
Child Care Cluster	14	14	14	14
Foster Care	7	7	7	7
SAPT	14	14	15	15
Total	98	98	99	80

Source: Compiled by the Legislative Audit Division.

Per department personnel, the reason these reports were not submitted was due to turnover in the position responsible for FFATA reporting in December 2014 and a lack of documented effective controls over the FFATA reporting process. For the Foster

Care program, however, the Child and Family Services Division incorrectly classified its subrecipients. FFATA reports are not required for vendors but are for subrecipients. Incomplete or inaccurate FFATA reporting reduces transparency which is contrary to the purpose of the Act.

RECOMMENDATION #9

We recommend that the Department of Public Health and Human Services:

- A. *Submit Federal Funding Accountability and Transparency Act reports as required by federal regulations.*
 - B. *Develop and implement effective internal controls to ensure Federal Funding Accountability and Transparency Act subaward reporting is completed accurately and timely for federal programs.*
-

Supplemental Nutrition Assistance Program (SNAP) Report Reviews

The department does not have procedures in place to document reviews of required SNAP reports.

The SNAP program is required to complete and submit several reports to the federal government. These include a monthly FNS-46 report which accounts for benefits issued each month and a quarterly FNS-209 report which reports overpayments to households and any collections received. Our review of the FNS-46 report found there are no documented controls in place to verify the information, used to complete the report, which comes from one of the department's computer systems, is correct prior to submission. Additionally, there is no documentation either of the reports are reviewed prior to submission to the federal government.

Department personnel stated since the FNS-46 report only includes five items and one of the items does not change, it did not warrant a review prior to submission. However, federal regulations require the department to have controls in place over the reports.

While we did not note any errors in the reports, a lack of adequate internal controls over reporting increases risk that the information submitted to the federal government is incorrect or contains errors.

RECOMMENDATION #10

We recommend the Department of Public Health and Human Services:

- A. *Implement controls over the preparation of the FNS-46 and FNS-209 reports.*
 - B. *Document reviews of FNS-46 and FNS-209 reports prior to submission.*
-

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, 2015, and 2014, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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.

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, 2015, and June 30, 2014, or changes in financial position or cash flows for the years then ended.

Basis for Qualified Opinions on Regulatory Basis of Accounting

In both fiscal years 2014 and 2015, the department recorded Supplemental Nutrition Assistance Program (SNAP) federal revenue as nonbudgeted rather than budgeted in the Federal Special Revenue Fund. Additionally, in fiscal year 2015, the department recorded a revenue estimate for this same nonbudgeted revenue. Since the revenue was recorded as nonbudgeted, it does not process against the estimate. This resulted in the following errors on the Schedules of Total Revenues & Transfers-In and the Schedules of Changes in Fund Equity & Property Held in Trust.

Schedule and Accounts	Fiscal Year	Amount Presented	Over (Under) Stated
Schedules of Total Revenues & Transfer-In			
Nonbudgeted Revenues & Transfers -In	2014	\$ 182,043,028	\$ 181,958,070
Actual Budgeted Revenues & Transfers -In	2014	\$ 1,118,996,202	(\$ 181,958,070)
Nonbudgeted Revenues & Transfers -In	2015	\$ 173,459,469	\$ 173,604,793
Actual Budgeted Revenues & Transfers -In	2015	\$ 1,169,491,452	(\$ 173,604,793)
Budgeted Revenues & Transfers-In Over (Under) Estimated	2015	(\$ 223,177,110)	(\$ 173,604,793)
Schedules of Changes in Fund Equity & Property Held in Trust			
Nonbudgeted Revenues & Transfers-In	2014	\$ 182,043,028	\$ 181,958,070
Budgeted Revenues & Transfers-In	2014	\$ 1,118,996,202	(\$ 181,958,070)
Nonbudgeted Revenues & Transfers-In	2015	\$173,459,469	\$ 173,604,793
Budgeted Revenues & Transfers-In	2015	\$1,169,149,452	(\$ 173,604,793)

Qualified Opinions on Regulatory Basis of Accounting

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinions” paragraph, the Schedules of Changes in Fund Equity & Property Held in Trust and Schedules of Total Revenues & Transfers-In, 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, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Total Expenditures & Transfers-Out present fairly, in all material respects, the results of operations of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 6 to the financial schedules, the Department of Public Health and Human Services recorded a revenue estimate of \$189,192,052 in the Federal Special Revenue Fund for the fiscal year ended June 30, 2015, related to SNAP federal revenue. Revenue estimates are necessary in the primary accounting system for budgeted revenues to process against, but not for nonbudgeted revenues. An estimate for SNAP federal revenues was not recorded for the fiscal year ended June 30, 2014. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2015, on our consideration of the Department of Public Health and Human Services’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department’s internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 28, 2015

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Permanent Fund
FUND EQUITY: July 1, 2014	\$ (42,755,562)	\$ 28,770,731	\$ (18,443,654)	\$ 4,321,873	\$ (860,709)	\$ 0	\$ 186,492,121
PROPERTY HELD IN TRUST: July 1, 2014						1,054,029	
ADDITIONS							
Budgeted Revenues & Transfers-In	20,153,199	51,869,298	1,169,491,452				38,911
Nonbudgeted Revenues & Transfers-In	15,843	3,476,789	173,459,469	2,930,378			18,197,901
Prior Year Revenues & Transfers-In Adjustments	203	(32,573)	(20,951,246)				
Direct Entries to Fund Equity	430,075,282	114,237,802	277,550		1,233,374		
Additions to Property Held in Trust						80,426,808	
Total Additions	450,244,527	169,551,316	1,322,277,225	2,930,378	1,233,374	80,426,808	18,236,812
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	456,437,800	158,873,142	1,346,047,036		656,625		
Nonbudgeted Expenditures & Transfers-Out	(206,674)	6,429,322	17,862	2,941,633			6,963,276
Prior Year Expenditures & Transfers-Out Adjustments	(6,505,044)	511,033	(19,926,562)				
Reductions in Property Held in Trust						80,542,460	
Total Reductions	449,726,083	165,813,496	1,326,138,336	2,941,633	656,625	80,542,460	6,963,276
FUND EQUITY: June 30, 2015	\$ (42,237,117)	\$ 32,508,551	\$ (22,304,765)	\$ 4,310,618	\$ (283,959)	\$ 0	\$ 197,765,657
PROPERTY HELD IN TRUST: June 30, 2015						938,377	

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-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Agency Fund	Permanent Fund
FUND EQUITY: July 1, 2013	\$ (37,505,186)	\$ 26,756,045	\$ (28,259,075)	\$ 4,321,766	\$ (1,388,468)	\$ 0	\$ 169,260,255
PROPERTY HELD IN TRUST: July 1, 2013						\$ 1,190,483	
ADDITIONS							
Budgeted Revenues & Transfers-In	21,630,389	54,678,973	1,118,996,202				38,402
Nonbudgeted Revenues & Transfers-In	(3,536)	3,201,609	182,043,028	2,956,455			23,789,800
Prior Year Revenues & Transfers-In Adjustments	61,751	(1,153,656)	(14,989,937)				
Direct Entries to Fund Equity	420,149,901	110,925,943	(133,754)		1,158,133		
Additions to Property Held in Trust						77,676,565	
Total Additions	441,838,504	167,652,869	1,285,915,539	2,956,455	1,158,133	77,676,565	23,828,202
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	446,718,070	155,122,672	1,293,454,820		630,374		
Nonbudgeted Expenditures & Transfers-Out	66,438	11,688,356	151,627	2,956,348			6,596,336
Prior Year Expenditures & Transfers-Out Adjustments	304,371	(1,172,846)	(17,506,328)				
Reductions in Property Held in Trust						77,813,018	
Total Reductions	447,088,880	165,638,183	1,276,100,119	2,956,348	630,374	77,813,018	6,596,336
FUND EQUITY: June 30, 2014	\$ (42,755,562)	\$ 28,770,731	\$ (18,443,654)	\$ 4,321,873	\$ (860,709)	\$ 0	\$ 186,492,121
PROPERTY HELD IN TRUST: June 30, 2014						\$ 1,054,029	

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-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
Licenses and Permits	\$ 86,859	\$ 2,162,397			\$	\$ 2,249,256
Charges for Services	16,839,339	15,378,749	\$ 532,873			32,750,961
Investment Earnings	(11,514)	35,578		\$ 213,039	\$ 5,817,686	6,054,790
Fines and Forfeits			42,287			42,287
Monetary Settlements		16,931,528	3,567,925		11,727,407	32,226,860
Sale of Documents, Merchandise and Property	927	113,445				114,373
Rentals, Leases and Royalties	882	55,814				56,697
Grants, Contracts, and Donations		11,292,341				11,292,466
Transfers-in	3,221,881	7,047,889	1,031,602	2,717,339	691,593	14,710,304
Inception of Lease/Installment Contract	14,299	3,050	15,248			32,596
Federal Indirect Cost Recoveries		18,740	71,177,319			71,196,059
Miscellaneous	16,915	367,442	546,009			930,365
Federal	(344)	1,906,541	1,245,086,414			1,246,992,612
Total Revenues & Transfers-In	20,169,246	55,313,514	1,321,999,676	2,930,378	18,236,812	1,418,649,625
Less: Nonbudgeted Revenues & Transfers-In	15,843	3,476,789	173,459,469	2,930,378	18,197,901	198,080,381
Actual Budgeted Revenues & Transfers-In	203	(32,573)	(20,951,246)			(20,983,616)
Estimated Revenues & Transfers-In	20,153,199	51,869,298	1,169,491,452	0	38,911	1,241,552,860
Budgeted Revenues & Transfers-In Over (Under) Estimated	18,709,789	53,455,568	1,392,668,562		40,000	1,464,873,919
	\$ 1,443,410	\$ (1,586,270)	\$ (223,177,110)	\$ 0	\$ (1,089)	\$ (223,321,059)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ 13,187	\$ 480,536			\$	\$ 493,723
Charges for Services	(1,629,066)	(550,388)	\$ 2,048			(2,177,406)
Investment Earnings	(21,514)	(46,525)		\$	(1,089)	(69,128)
Fines and Forfeits			(713)			(713)
Monetary Settlements		531,310	(432,648)			98,662
Sale of Documents, Merchandise and Property	(873)	(1,043)				(1,915)
Rentals, Leases and Royalties	(17)	(2,845)				(2,862)
Grants, Contracts, and Donations		(1,625,529)				(1,625,529)
Transfers-in	3,221,880	(2,232,012)	(778,568)			211,301
Federal Indirect Cost Recoveries		(38,591)	3,076,247			3,037,656
Miscellaneous	(129,635)	182,638	121,519			174,523
Federal	(10,553)	1,716,180	(225,164,996)			(223,459,370)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 1,443,410	\$ (1,586,270)	\$ (223,177,110)	\$ 0	\$ (1,089)	\$ (223,321,059)

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-11.

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Permanent Fund	Total
Licenses and Permits	\$ 83,816	\$ 1,922,836			\$	2,006,652
Charges for Services	17,297,790	19,194,089	\$ 56,631			36,548,510
Investment Earnings	9,139	32,611		\$ 212,874	\$ 9,912,265	10,166,889
Fines and Forfeits			113,644			113,644
Monetary Settlements		18,047,167	3,551,892		13,256,694	34,855,752
Sale of Documents, Merchandise and Property	2,035	97,624				99,659
Rentals, Leases and Royalties	1,311	252,353				253,664
Grants, Contracts, and Donations		11,219,020				11,219,020
Transfers-in	4,274,907	6,574,679	568,120	2,743,581	659,243	14,820,531
Federal Indirect Cost Recoveries		6,504	70,494,393			70,500,898
Miscellaneous	15,551	107,133	170,765			293,448
Federal	4,054	(727,090)	1,211,093,849			1,210,370,814
Total Revenues & Transfers-In	21,688,603	56,726,926	1,286,049,294	2,956,455	23,828,202	1,391,249,481
Less: Nonbudgeted Revenues & Transfers-In	(3,536)	3,201,609	182,043,028	2,956,455	23,789,800	211,987,357
Prior Year Revenues & Transfers-In Adjustments	61,751	(1,153,656)	(14,989,937)			(16,081,842)
Actual Budgeted Revenues & Transfers-In	21,630,389	54,678,973	1,118,996,202	0	38,402	1,195,343,965
Estimated Revenues & Transfers-In	18,071,789	60,981,884	1,075,901,336		40,000	1,154,995,008
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,558,600	\$ (6,302,910)	\$ 43,094,866	\$ 0	\$ (1,598)	\$ 40,348,957
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ 10,144	\$ 363,636			\$	373,780
Taxes		(5,684)				(5,684)
Charges for Services	(527,079)	(2,057,786)	(3,944)			(2,588,809)
Investment Earnings	48,009	(119,347)			\$ (1,598)	(72,936)
Fines and Forfeits			113,644			113,644
Monetary Settlements		823,217	(6,947)			816,270
Sale of Documents, Merchandise and Property	235	(1)				234
Rentals, Leases and Royalties	405	(10,308)				(9,903)
Grants, Contracts, and Donations		275,919				275,919
Transfers-in	4,160,129	(4,484,710)	(8,465)			(333,046)
Federal Indirect Cost Recoveries		2,034	25,546,544			25,548,578
Miscellaneous	(125,918)	(342,686)	143,280			(325,325)
Federal	(7,325)	(747,195)	17,310,754			16,556,235
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 3,558,600	\$ (6,302,910)	\$ 43,094,866	\$ 0	\$ (1,598)	\$ 40,348,957

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-11.

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	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 & Community Services	Management & Fair Hearings	Medicaid & Health Services Management	Public Health & Safety Division	Quality Assurance Division	Senior & Long-Term Care	Technology Services Division	Total
Personal Services																
Salaries	\$ 29,761,797	\$ 2,773,263	\$ 15,513,851	\$ 7,486,652	\$ 13,115,201	\$ 4,713,637	\$ 6,476,326	\$ 2,362,590	\$ 19,907,250	\$ 774,725	\$ 238,898	\$ 9,434,843	\$ 5,212,032	\$ 8,526,439	\$ 4,721,120	\$ 131,018,626
Employee Benefits	13,260,850	1,080,822	6,414,834	2,883,588	6,022,758	673,013	2,594,392	861,422	8,483,160	247,890	71,556	3,542,160	2,023,711	3,986,062	1,576,473	53,722,692
Total	43,022,648	3,854,085	21,928,685	10,370,240	19,137,959	5,386,650	9,070,718	3,224,012	28,390,410	1,022,616	310,454	12,977,004	7,235,744	12,512,501	6,297,593	184,741,317
Operating Expenses																
Other Services	8,708,635	3,213,619	1,421,937	427,290	4,941,311	599,855	2,686,128	7,988,966	5,563,637	7,850	5,523,702	8,533,342	462,431	5,328,985	33,456,111	88,863,801
Supplies & Materials	4,154,990	53,969	210,075	99,216	766,514	108,274	228,041	41,118	948,853	7,687	210	2,014,754	83,773	1,379,947	2,221,441	12,318,858
Communications	228,281	1,078,936	597,549	388,066	117,035	189,344	327,787	29,784	616,263	7,109	1,545	535,634	114,096	104,573	3,136,331	7,472,331
Travel	241,789	7,510	747,650	10,000	197,747	64,633	183,491	10,012	360,104	2,106	2,974	714,162	329,258	101,382	46,209	3,019,025
Rent	921,001	502,545	2,746,159	743,950	394,168	152,773	915,265	134,740	2,930,267	48,022	10,669	699,489	519,478	529,370	301,433	11,549,329
Utilities	857,194	155	10,587	142	319,038				74,645			14,662	534	162,611		1,439,567
Repair & Maintenance	1,005,400	26,018	48,465	37,433	115,609	8,968	293,187	11,549	268,495	647	626	163,807	5,473	309,678	105,200	2,400,554
Other Expenses	4,021,462	(8,370,049)	7,175,292	4,322,554	3,745,449	(5,846,630)	1,205,079	24,246,229	14,195,984	(1,087,223)	(5,538,021)	3,953,050	(663,197)	2,282,745	(38,261,166)	5,381,558
Goods Purchased For Resale	89,940											6,693				96,633
Total	20,228,690	(3,487,297)	12,957,713	6,028,650	10,596,871	(4,722,784)	5,838,978	32,462,398	24,958,249	(1,013,803)	1,705	16,635,593	851,846	10,199,291	1,005,558	132,541,657
Equipment & Intangible Assets																
Equipment	30,300	5,000	6,088		11,134		25,162					27,749		92,812	41,274	239,519
Capital leases - equipment	8,200	24,396														32,596
Intangible Assets															669,841	669,841
Total	38,500	29,396	6,088		11,134		25,162					27,749		92,812	711,115	941,956
Capital Outlay																
Other Improvements														48,000		48,000
Total														48,000		48,000
Local Assistance																
From State Sources	2,357,130															2,357,130
Total	2,357,130															2,357,130
Grants																
From State Sources	2,670,314					7,500			4,906,956			4,000,841		5,134,252		16,719,863
From Federal Sources	2,667,779		6,429,190			299,199			14,259,146		10,283,618	19,095,183	635,847	6,915,930		60,585,892
From Other Sources												1,151,354				1,151,354
Grant To Governmental Entities												684,099				684,099
Grant To Non-Governmental Ent												60,000				60,000
Total	5,338,093		6,429,190			306,699			19,166,101		10,283,618	24,991,477	635,847	12,050,182		79,201,208
Benefits & Claims																
To Individuals	78,820,000		36,004,367		241,512,300		13,010,867	655,792,027	63,272,372			3,814,292		246,713,366		1,338,939,591
From State Sources														26,470		26,470
From Federal Sources									183,491,097			9,084,411				192,575,509
Total	78,820,000		36,004,367		241,512,300		13,010,867	655,792,027	246,763,470			12,898,704		246,739,836		1,531,541,570
Transfers-out																
Fund transfers	1,775,576	6,915,932	255,128		964,263	51,425	119,432	971,438	2,975,937			441,831	484	3,215,087		17,686,533
Total	1,775,576	6,915,932	255,128		964,263	51,425	119,432	971,438	2,975,937			441,831	484	3,215,087		17,686,533
Debt Service																
Bonds	1,917,880				1,023,754											2,941,633
Loans	121,667				37,932									61,716		221,315
Capital Leases														3,603		3,603
Installment Purchases	3,119	10,407														13,526
Total	2,042,665	10,407			1,061,686									65,319		3,180,077
Total Expenditures & Transfers-Out	\$ 153,623,302	\$ 7,322,524	\$ 77,581,170	\$ 16,398,890	\$ 273,284,212	\$ 1,021,991	\$ 28,065,158	\$ 692,449,875	\$ 322,254,166	\$ 8,813	\$ 10,595,777	\$ 67,972,357	\$ 8,723,921	\$ 284,923,027	\$ 8,014,266	\$ 1,952,239,448
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund	\$ 58,072,570	\$ 325,661	\$ 44,174,049	\$ 4,018,235	\$ 82,847,501	\$ 174,251	\$ 5,511,807	\$ 148,125,492	\$ 34,243,581	\$ 33,074	\$ 55,831	\$ 4,115,736	\$ 2,187,893	\$ 64,440,482	\$ 1,399,920	\$ 449,726,083
State Special Revenue Fund	21,596,717	3,505	2,151,301	1,279,831	8,877,246	314,215	907,420	70,446,829	4,980,082	(3,642)	(12)	16,897,757	428,897	37,517,161	416,190	165,813,496
Federal Special Revenue Fund	72,036,136	77,426	31,241,888	11,100,824	180,535,712	486,180	21,645,931	472,853,285	283,030,503	(20,619)	10,539,959	46,958,864	6,107,131	182,965,384	6,579,732	1,326,138,336
Debt Service Fund	1,917,880				1,023,754											2,941,633
Capital Projects Fund			13,931					1,024,269							(381,576)	656,625
Permanent Fund		6,915,932				47,344										6,963,276
Total Expenditures & Transfers-Out	153,623,302	7,322,524	77,581,170	16,398,890	273,284,212	1,021,991	28,065,158	692,449,875	322,254,166	8,813	10,595,777	67,972,357	8,723,921	284,923,027	8,014,266	1,952,239,448
Less: Nonbudgeted Expenditures & Transfers-Out	5,499,054	(2,154,890)	7,152,893	3,958,679	3,501,247	(5,586,699)	1,044,668	24,041,415	16,405,222	(1,110,114)	(5,541,138)	3,297,504	(704,874)	5,062,881	(38,720,428)	16,145,419
Prior Year Expenditures & Transfers-Out Adjustments	(2,220,859)	(727)	104,421	38,247	(1,517,470)	(99,742)	(342,508)	(13,451,350)	(2,442,017)	(28,947)	(917,428)	(798,258)	17,958	(5,216,899)	955,006	(25,920,573)
Actual Budgeted Expenditures & Transfers-Out	150,345,107	9,478,141	70,323,856	12,401,964	271,300,436	6,708,432	27,362,998	681,859,809	308,290,961	1,147,874	17,054,344	65,473,111	9,410,837	285,077,045	45,779,688	1,962,014,602
Budget Authority	155,492,372	9,522,919	71,208,585	12,563,236	292,622,973	6,858,265	30,647,600	703,699,808	324,723,573	1,174,445	18,442,942	81,794,512	10,172,255	310,427,716	74,362,894	2,103,714,095
Unspent Budget Authority	\$ 5,147,264	\$ 44,778	\$ 884,730	\$ 161,272	\$ 21,322,537	\$ 149,833	\$ 3,284,602	\$ 21,839,999	\$ 16,432,612	\$ 26,571	\$ 1,388,598	\$ 16,321,401	\$ 761,418	\$ 25,350,671	\$ 28,583,206	\$ 141,699,492
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund	\$ 1,070,373	\$ 1,707	\$ 320,122	\$ 3,187	\$ 2,859,485	\$ 4,881	\$ 31,680	\$ 7,979,743	\$ 38,674	\$ 1,355	\$ 6,337	\$ 239,152	\$ 3,039	\$ 1,509,701	\$ 7,931	\$ 14,077,369
State Special Revenue Fund	792,630	31,594	353,350	73,436	1,288,024	102,610	908,190	5,515,802	563,110	22,410	13,361	793,503	260,272	4,883,253	3,421	15,604,966
Federal Special Revenue Fund	3,284,261	11,478	211,257	84,648	17,175,029	42,341	2,344,732	8,344,454	15,830,828	2,806	1,368,901	15,288,745	498,107	18,957,717	22,217,747	105,663,050
Capital Projects Fund															6,354,107	6,354,107
Unspent Budget Authority	\$ 5,147,264	\$ 44,778	\$ 884,730	\$ 161,272	\$ 21,322,537	\$ 149,833	\$ 3,284,602	\$ 21,839,999	\$ 16,432,612	\$ 26,571	\$ 1,388,598	\$ 16,321,401	\$ 761,418	\$ 25,350,671	\$ 28,583,206	\$ 141,699,492

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, 2014

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	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 & Community Services	Management & Fair Hearings	Medicaid & Health Services Management	Public Health & Safety Division	Quality Assurance Division	Senior & Long-Term Care	Technology Services Division	Total
Personal Services																
Salaries	\$ 27,466,589	\$ 2,675,948	\$ 14,997,678	\$ 7,110,368	\$ 12,629,241	\$ 4,321,757	\$ 6,084,323	\$ 2,208,734	\$ 19,046,619	\$ 751,098	\$ 212,334	\$ 9,247,443	\$ 4,992,099	\$ 8,176,358	\$ 4,920,483	\$ 124,841,072
Hourly Wages					366											366
Employee Benefits	11,650,581	1,031,684	5,948,815	2,663,399	5,667,280	834,494	2,334,698	780,641	7,807,334	235,384	61,554	3,344,835	1,866,166	3,734,631	1,588,480	49,549,975
Total	39,117,170	3,707,632	20,946,493	9,773,767	18,296,887	5,156,250	8,419,021	2,989,375	26,853,953	986,482	273,887	12,592,278	6,858,265	11,910,989	6,508,963	174,391,413
Operating Expenses																
Other Services	7,258,694	3,347,087	1,220,405	458,911	4,375,857	631,081	2,605,546	9,468,253	5,147,470	55,301	7,810,869	7,558,207	335,313	5,504,472	17,827,598	73,605,063
Supplies & Materials	4,061,002	153,105	251,067	201,208	600,774	74,419	336,311	40,288	468,119	8,666	2,097	1,919,615	107,230	1,315,916	1,963,607	11,503,423
Communications	246,865	1,073,760	531,639	403,915	118,895	237,666	346,806	101,225	640,447	7,063	1,668	983,585	115,246	130,466	3,009,875	7,949,120
Travel	196,556	3,611	653,253	5,408	185,616	64,774	138,166	9,773	317,972	6,005	5,445	635,385	349,428	91,799	72,617	2,735,807
Rent	823,099	277,099	2,490,124	746,311	425,386	135,263	873,099	137,034	2,685,890	64,676	7,688	746,377	496,823	543,756	380,322	10,832,946
Utilities	860,782	5	10,744		304,565	19			79,096			19,503		166,563		1,441,277
Repair & Maintenance	433,008	84,575	85,763	90,252	81,763	8,592	284,781	11,696	196,325	667	441	185,560	7,163	268,968	116,833	1,856,388
Other Expenses	3,932,692	(8,245,567)	7,290,911	4,328,403	3,868,368	(5,950,275)	1,060,939	23,683,061	15,364,037	(1,101,206)	(7,755,270)	3,705,388	(355,038)	2,320,980	(37,190,434)	4,956,989
Goods Purchased For Resale	84,362															84,362
Total	17,897,061	(3,306,325)	12,533,906	6,234,407	9,961,224	(4,798,461)	5,645,648	33,451,329	24,899,356	(958,829)	72,937	15,753,619	1,056,166	10,342,919	(13,819,583)	114,965,375
Equipment & Intangible Assets																
Equipment	89,590	7,900	(2,510)	21,457								36,499	29,337	68,048	148,192	398,513
Intangible Assets															468,517	468,517
Total	89,590	7,900	(2,510)	21,457								36,499	29,337	68,048	616,709	867,030
Local Assistance																
From State Sources	2,781,491															2,781,491
Total	2,781,491															2,781,491
Grants																
From State Sources	2,443,744					17,425			5,525,218			4,170,101		5,141,823		17,298,311
From Federal Sources	2,116,266		6,462,497			360,599			14,650,866		9,523,910	18,064,169	861,372	6,747,190		58,786,869
From Other Sources												1,135,482				1,135,482
Grant To Governmental Entities												772,489				772,489
Grant To Non-Governmental Ent												97,593				97,593
Total	4,560,010		6,462,497			378,024			20,176,084		9,523,910	24,239,833	861,372	11,889,013		78,090,743
Benefits & Claims																
To Individuals	73,142,140		33,488,908		232,324,504		13,989,791	629,909,380	65,860,647			4,500,001		248,465,320		1,301,680,691
From State Sources														23,952		23,952
From Federal Sources									191,396,612			9,630,960				201,027,572
Total	73,142,140		33,488,908		232,324,504		13,989,791	629,909,380	257,257,259			14,130,961		248,489,273		1,502,732,216
Transfers-out																
Fund transfers	1,772,868	6,592,428	238,593		995,013	3,908	5,958	5,080,733	2,555,526			404,674	13,336	4,353,635		22,016,673
Total	1,772,868	6,592,428	238,593		995,013	3,908	5,958	5,080,733	2,555,526			404,674	13,336	4,353,635		22,016,673
Debt Service																
Bonds	1,915,021				1,027,228											2,942,249
Loans	113,994				37,932									61,716		213,642
Capital Leases			1,158											4,942		6,100
Installment Purchases		3,311														3,311
Total	2,029,015	3,311	1,158		1,065,160									66,658		3,165,301
Total Expenditures & Transfers-Out	\$ 141,389,345	\$ 7,004,945	\$ 73,669,045	\$ 16,029,631	\$ 262,642,789	\$ 739,722	\$ 28,060,417	\$ 671,430,818	\$ 331,742,178	\$ 27,653	\$ 9,870,734	\$ 67,157,864	\$ 8,818,476	\$ 287,120,535	\$ (6,693,911)	\$ 1,899,010,241
EXPENDITURES & TRANSFERS-OUT BY FUND																
General Fund	\$ 68,079,763	\$ 353,116	\$ 40,925,179	\$ 3,970,535	\$ 79,830,903	\$ 110,501	\$ 5,789,408	\$ 142,145,112	\$ 35,240,338	\$ 9,377	\$ 64,042	\$ 3,898,929	\$ 2,293,458	\$ 64,713,004	\$ (334,783)	\$ 447,088,880
State Special Revenue Fund	19,686,413	(9,502)	2,124,169	1,193,834	7,861,074	262,329	946,292	72,420,560	5,192,056	3,516	145	16,910,501	358,451	38,532,486	155,859	165,638,183
Federal Special Revenue Fund	51,708,147	68,902	30,256,178	10,865,262	173,909,484	362,984	21,324,718	456,473,962	291,312,908	14,761	9,806,548	46,348,435	6,166,566	183,875,045	(6,393,781)	1,276,100,119
Debt Service Fund	1,915,021				1,041,327											2,956,348
Capital Projects Fund			363,519					391,184	(3,124)						(121,205)	630,374
Permanent Fund		6,592,428				3,908										6,596,336
Total Expenditures & Transfers-Out	141,389,345	7,004,945	73,669,045	16,029,631	262,642,789	739,722	28,060,417	671,430,818	331,742,178	27,653	9,870,734	67,157,864	8,818,476	287,120,535	(6,693,911)	1,899,010,241
Less: Nonbudgeted Expenditures & Transfers-Out	5,516,303	(2,408,040)	7,207,469	4,000,298	3,771,960	(5,933,494)	1,001,792	28,353,782	17,685,626	(1,104,816)	(7,782,047)	2,785,213	(372,410)	6,025,538	(37,288,069)	21,459,106
Prior Year Expenditures & Transfers-Out Adjustments	(2,383,338)	(3,699)	(215,781)	554	(1,900,124)	(175,264)	(326,606)	(10,659,544)	(1,417,983)	(1,286)	(332,687)	(175,208)	115,949	(752,636)	(147,150)	(18,374,802)
Actual Budgeted Expenditures & Transfers-Out	138,256,380	9,416,684	66,677,356	12,028,779	260,770,953	6,848,480	27,385,231	653,736,579	315,474,535	1,133,756	17,985,468	64,547,859	9,074,936	281,847,632	30,741,309	1,895,925,937
Budget Authority	146,183,008	10,182,738	67,210,225	12,106,460	275,786,533	8,975,919	31,392,948	657,280,861	327,038,288	1,169,622	19,112,326	76,018,571	9,945,298	299,457,022	69,809,072	2,011,668,891
Unspent Budget Authority	\$ 7,926,628	\$ 766,055	\$ 532,868	\$ 77,681	\$ 15,015,581	\$ 2,127,439	\$ 4,007,717	\$ 3,544,282	\$ 11,563,754	\$ 35,866	\$ 1,126,858	\$ 11,470,712	\$ 870,362	\$ 17,609,390	\$ 39,067,763	\$ 115,742,954
UNSPENT BUDGET AUTHORITY BY FUND																
General Fund	\$ 214,612	\$ 88,310	\$ 47,666	\$ 4,630	\$ 151,765	\$ 3,160	\$ 9,850	\$ 40,788	\$ 19,722	\$ 1,452	\$ 10,825	\$ 2,463	\$ 2,142	\$ 208,327	\$ 4,556	\$ 810,268
State Special Revenue Fund	1,947,440	72,341	147,742	17,664	643,864	2,100,638	841,524	157	469,896	13,147	2,147	418,149	235,380	4,457,614	295,039	11,662,743
Federal Special Revenue Fund	5,764,575	605,404	337,460	55,387	14,219,952	23,641	3,156,343	3,503,337	11,074,135	21,268	1,113,886	11,050,100	632,840	12,943,450	31,757,436	96,259,212
Capital Projects Fund														7,010,732		7,010,732
Unspent Budget Authority	\$ 7,926,628	\$ 766,055	\$ 532,868	\$ 77,681	\$ 15,015,581	\$ 2,127,439	\$ 4,007,717	\$ 3,544,282	\$ 11,563,754	\$ 35,866	\$ 1,126,858	\$ 11,470,712	\$ 870,362	\$ 17,609,390	\$ 39,067,763	\$ 115,742,954

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, 2015

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 categories (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 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 at 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 Service Block Grant, 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

- ♦ **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 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, 2014 and June 30, 2015.

3. Direct Entries to Fund Equity

The Department recorded \$420,149,901 and \$430,075,282 of direct entries to fund equity in the General Fund during fiscal years 2014 and 2015 respectively. Most of the direct entries to fund equity in the General Fund result from entries generated by Statewide Accounting, Budgeting and Human Resources System (SABHRS) to reflect the flow of resources with the fund between separate agencies.

Direct entries to fund equity in the State Special Revenue, Federal Special Revenue 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 funds also include corrections of errors from a previous period that occurred at least two fiscal years prior.

4. Nonbudgeted Activity

The departments cost allocation plan for fiscal years 2014 and 2015 allocates shared costs across divisions. Recognition of these costs distributions results in expenditure abatements (negative amounts) in the "Other Expenses" Operating Expenses account category of divisions that perform a significant amount of shared services.

5. Nonbudgeted Revenues and Transfers-in

Nonbudgeted revenues and transfers-in include SNAP benefit revenue of \$182,043,028 for the fiscal year ended June 30, 2014 and \$173,459,469 for the fiscal year ended June 30, 2015.

6. Budgeted Revenues and Transfers-in Over (Under) Estimated by Class

Budgeted revenues and transfers-in includes \$225,164,996 in excess revenue estimated related to the SNAP program for the fiscal year ended June 30, 2015. Budgeted revenues and transfers-in includes an over estimation of \$43,094,866 for the fiscal year ended June 30, 2014 related to the SNAP program, indirect funds and miscellaneous federal grants.

7. 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.

8. Financial Schedules

The financial schedules for the two fiscal years ended June 30, 2014 and June 30, 2015 do not foot or cross-foot due to rounding. However, the rounding issue is immaterial and the Department considers the schedules an accurate representation of the financial activity reported in SABHRS by the Department.

9. Contingencies

The case of Mashek v. DPHHS and DOA, Band 6 Compliance Specialists in the Child Enforcement Division of DPHHS challenge the adequacy under Broadband Pay law of compensation paid to them under several collective bargaining agreements negotiated, executed, ratified and performed. If liability were proven, the loss could range from \$6 to \$8 million and has not been recorded in the financial statements.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

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



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the 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, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated September 28, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Department of Public Health and Human Services' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of Department of Public Health and Human Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Department of Public Health and Human Services' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be a significant deficiency. See Recommendation #3 on page 13 for a description of this significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department of Public Health and Human Services financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Department of Public Health and Human Services Response to Findings

Department of Public Health and Human Services response to the findings identified in our audit are described starting on page C-1 of this report. The department's response was not subjected to the auditing procedures applied in the audit of the financial schedules and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

September 28, 2015

DEPARTMENT OF PUBLIC
HEALTH AND HUMAN
SERVICES

DEPARTMENT RESPONSE



Department of Public Health and Human Services

Director's Office ♦ PO Box 4210 ♦ Helena, MT 59604 ♦ (406) 444-5622 ♦ Fax: (406) 444-1970 ♦ www.dphhs.mt.gov

C-1

Steve Bullock,
Governor

Richard H.
Opper, Director

October 9, 2015

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

RECEIVED
OCT 13 2015
LEGISLATIVE AUDIT DIV.

Re: Financial Compliance audit

Dear Ms. Hunthausen:

The Department of Public Health and Human Services has reviewed the *Financial Compliance Audit* (15-14) completed by the Legislative Audit Division. Our responses and corrective action plans for each recommendation are provided below.

Recommendation #1: We recommend the Department of Public Health and Human Services:

- a) Develop internal controls to address related party and conflict of interest issues.
- b) Seek \$50,202 from the Montana Mental Health Settlement Trust to which the department is entitled per the grant agreement.

Response: Concur

Corrective Action: The Department is strengthening their internal controls to address related party and conflict of interest issues with a policy that is currently in final draft and will seek any money still due from the Montana Mental Health Settlement Trust per the grant agreement.

Planned Completion Date: 1/1/2016

Recommendation #2: We recommend the Department of Public Health and Human Services periodically review Agency Wide Accounting and Client System user access role categories to determine appropriateness and remove unnecessary access.

Response: Concur

Corrective Action: The Department will enhance its policy and practice to ensure periodic reviews of access granted to user groups in AWACS. The Department has already taken steps to mitigate the risk and reviewed user group access in AWACS. The Department has at present revoked the specific group rights for EFT that were of concern in the audit.

Planned Completion Date: 2/15/2016

Recommendation #3: We recommend the Department of Public Health and Human Services record federal Supplemental Nutrition Assistance Program revenues as budgeted and classify loan activity in accordance with state policy.

Response: Concur

Corrective Action: The Department will record SNAP revenues as budget and continue to classify loan activity in accordance with state policy.

Planned Completion Date: Implemented

Recommendation #4: We recommend the Department of Public Health and Human Services comply with federal regulations by attempting to recover Temporary Assistance to Needy Families cash assistance overpayments caused by department errors.

Response: Partially Concur

Corrective Action: The Department of Public Health and Human Services will comply with federal regulations, but will need clear direction from the federal government on whether or not these types of overpayments need to have recovery attempts.

Planned Completion Date: 11/30/2015

Recommendation #5: We recommend the Department of Public Health and Human Services:

- a) Reevaluate the internal controls in place to ensure completeness and accuracy of CMS-64 reporting.
- b) Develop sufficient written procedures detailing the CMS-64 preparation process.
- c) Ensure staffs who prepare the CMS-64 report are properly trained.

Response: Concur

Corrective Action: The Department has reevaluated the internal controls in place to ensure completeness and accuracy of CMS-64 reporting. The Department has updated the written procedures detailing the CMS-64 preparation. The Department will ensure that all staff involved in the preparation of the CMS-64 report are properly trained.

Planned Completion Date: 11/15/15

Recommendation #6: We recommend the Department of Public Health and Human Services:

- a) Ensure staff who prepare the Cash Management Improvement Act (CMIA) reconciliations are properly trained.
- b) Complete CMIA reconciliations on a monthly basis.

Response: Concur

Corrective Action: The Department will ensure staff who prepare the CMIA reconciliations are properly trained and will complete the CMIA reconciliations on a monthly basis.

Planned Completion Date: Implemented

Recommendation #7: We recommend the Department of Public Health and Human Services complete risk analyses and biennial reviews over Medicaid Automatic Data Processing systems as required by federal regulations.

Response: Concur

Corrective Action: The Department has already taken steps to implement controls to track Medicaid administration systems and ensure periodic risk analysis and biennial reviews are completed.

Planned Completion Date: 12/15/2015

Recommendation #8: We recommend the Department of Public Health and Human Services categorize the tribal organizations as subrecipients of the Foster Care program and comply with all federal regulations regarding subrecipients.

Response: Concur

Corrective Action: The Department has updated language in the contracts with tribal organizations to categorize them as subrecipients of the Foster Care program and will comply with all federal regulations regarding subrecipients.

Planned Completion Date: Implemented

Recommendation #9: We recommend the Department of Public Health and Human Services:

- a) Submit Federal Funding Accountability and Transparency Act reports as required by federal regulations.
- b) Develop and implement effective internal controls to ensure Federal Funding Accountability and Transparency Act subaward reporting is completed accurately and timely for federal programs.

Response: Concur

Corrective Action: The Department will submit FFATA reports accurately and timely as required by federal regulations by developing and implementing effective internal controls.

Planned Completion Date: 11/30/2015

Recommendation #10: We recommend the Department of Public Health and Human Services:

- a) Implement controls over the preparation of the FNS-46 and FNS-209 reports.

- b) Document reviews of FNS-46 and FNS-209 reports prior to submission.

Response: Concur

Corrective Action: The Department will implement stronger controls over the preparation of the FNS-46 and FNS-209 reports and document reviews of the reports prior to submission.

Planned Completion Date: 10/31/2015

If you have any questions regarding our response, please contact Becky Schlauch, Audit Liason, at (406) 444-9407.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard H. Opper". The signature is fluid and cursive, with the first name "Richard" being more prominent than the last name "Opper".

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

cc: Marie Matthews, Operation Services Branch Manager
Bob Runkel, Economic Security Services Branch Manager
Mary Dalton, Medicaid Services Branch Manager
Becky Schlauch, Business and Financial Services Division Administrator, Audit Liaison
Jamie Palagi, Human and Community Services Division Administrator
Sarah Corbally, Child and Family Services Division Administrator
Glenda Oldenburg, Addictive and Mental Disorders Division Administrator
Stuart Fuller, Technology Services Division Administrator
Roy Kemp, Quality Assurances Interim Division Administrator
Deb Sloat, Human Resources Director