

Department of Public Health and Human Services

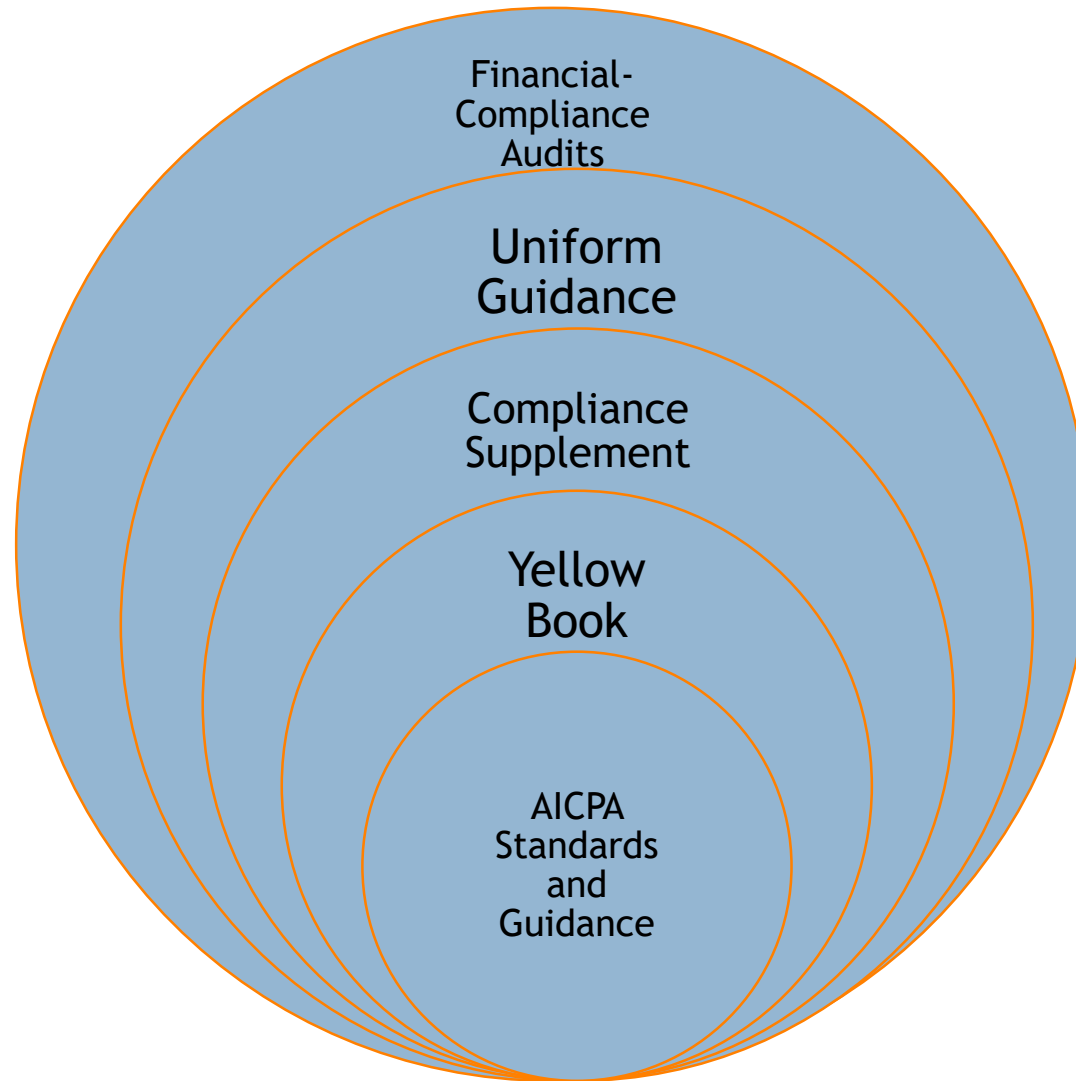
Financial-Compliance Audit

Two Fiscal Years Ended June 30, 2019

Report Content

- 27 Recommendations
 - Questioned Costs (page 12)
 - Known - \$15 million
 - Likely – up to \$184.5 million
 - Department's Response (page C-1)
- Qualified Opinion on the Financial Schedules (page A-1)
- Material Weaknesses in Internal Controls and Compliance Issues related to Financial Reporting (page B-1)
- Prior Report Contained 13 Recommendations (page 9)

Financial-Compliance Audits



Audit Risk Formula

Audit Risk = Inherent Risk x Control Risk x Detection Risk

Audit Risk must be LOW

Inherent Risk

Without controls, what could go wrong?

Control Risk

What controls exist, and are they reliable and testable?

Detection Risk

Given inherent and control factors, what other tests needed?

Auditing Process and Auditing Standards

(page 67)

- Audit Evidence
 - Appropriate (Quality: relevance, reliability)
 - Sufficient (Quantity: how much)
- Establishing Audit Scope
- Audit Sampling
- Scope Limitations

Medicaid & CHIP Eligibility Sample

(page 70)

- **Objective:** To determine whether individuals were appropriately denied or determined eligible for Medicaid and CHIP benefits based on eligibility criteria outlined in federal regulations and in the respective state plans.
- **Eligibility Requirements** (page 13):
 - Social Security Number
 - Resident of Montana
 - Certain Income and Age Criteria

Medicaid & CHIP Eligibility Sample

Consideration of Inherent and Control Risks

Inherent Risk

- * Multiple verification methods
- * Multiple eligibility categories
- * MAGI previously excluded
- * Performance Audit Observations

Control Risk

Detection Risk

Medicaid & CHIP Eligibility Sample

Consideration of Inherent and Control Risks

Inherent Risk

- * Multiple verification methods
- * Multiple eligibility categories
- * MAGI previously excluded
- * Performance Audit Observations

Control Risk

- * Interfaces with external data sources did not run
- * Required redeterminations did not occur
- * Evidence of eligibility discrepancy not followed-up on
- * Department staff override of information system controls

Detection Risk

Medicaid & CHIP Eligibility Sample Scope Decision

Inherent Risk

- * Multiple verification methods
- * Multiple eligibility categories
- * MAGI previously excluded
- * Performance Audit Observations

Control Risk

- * Interfaces with external data sources did not run
- * Required redeterminations did not occur
- * Evidence of eligibility discrepancy not followed-up on
- * Department staff override of information system controls

Detection Risk



Medicaid & CHIP Eligibility Sample Scope Decision



CHOICE #1

STOP AUDITING

- Consider importance of procedures
- Qualify or Disclaim the Auditor's Opinion
- Report Questioned Costs



CHOICE #2

ALTERNATIVE PROCEDURES

- Consider available third-party data sources
- Modify audit scope

Medicaid & CHIP Eligibility Sample Results

(Table 5 - page 18)

Table 5
Results of Sample: Medicaid and CHIP Case File Information to CHIMES Information
 Fiscal Years 2018 and 2019

Outcome	Key Eligibility Factors		
	Household Factor	Income Factor	Residency Factor
Case File Information Supported	44	26	53
Case File Information Not Supported	6	25	5
No State Tax Data Available	13	12	5
Total	63	63	63

Source: Compiled by the Legislative Audit Division from sample results.

42 CFR 435.914 – casefile must include facts to support eligibility decision

Medicaid & CHIP Eligibility Sample Results (Table 6 – page 19)

Medicaid & CHIP Eligibility Sample Results

(Table 7 - page 20)

Table 7
Auditor Eligibility Redetermination Results for Medicaid and CHIP
Fiscal Years 2018 and 2019

Department's Eligibility Determination Supported	21
Department's Eligibility Determination Not Supported:	
Incorrect Eligibility Category	9
Not Eligible Due to Income Limit	16
Not Eligible Due to Residency Requirement	1
No State Tax Data Available	16
Total	63

Source: Compiled by the Legislative Audit Division from sample results.

Quantifying the Financial Impact

Known Questioned Costs

Actual Benefits Paid

- \$216,630 (26 cases not supported)
- \$362,303 (16 cases no tax data available)

Likely Questioned Costs

Projected Benefit Payments

- Assumptions
 - Same rate of ineligibility
 - Steady annual benefits use by eligibility group
 - Three-month factor
- Approximately \$42 million annually
- **Low Contingency Estimate \$84.1 million - 6/30/2019**

Department's Analysis

(page 22)

- 88 member months in error / 1,512 member months in population = 5.8% error rate
- Over \$100 million in inappropriate benefit payments annually (State and Federal portion combined)

Federal PERM Rates

(page 22)

- Rolling National Average
- Each state re-evaluated every three years

	5.8% Total FY18 Expenditures	5.8% Total FY19 Expenditures	5.8% Federal FY18 Expenditures	5.8% Federal FY19 Expenditures
Medicaid	\$99.2 million	\$98.9 million	\$76.5 million	\$75.5 million
CHIP	\$5.5 million	\$5.8 million	\$5.4 million	\$5.7 million
Total	\$104.7 million	\$104.7 million	\$81.9 million	\$81.2 million
	\$209.4 million (state and federal costs)		\$163.1 million (federal costs only) High Contingency Estimate	

Recommendation #1:

(page 24)

RECOMMENDATION #1

We recommend the Department of Public Health and Human Services, as it relates to the Children's Health Insurance Program and Medicaid federal programs:

- A. Revise its Verification Plan to require additional information from the client when income information received from external data sources exceeds the limitation for the client's preliminarily authorized eligibility group, as required by federal regulations.*
- B. Revise its policies and procedures, including any necessary revisions in the State Plan, to ensure only eligible individuals receive benefits, as required by federal regulations.*
- C. Establish and maintain internal controls to timely verify client eligibility factors for all applicants and clients at application and redetermination.*
- D. Comply with federal regulations and state plan requirements by placing only eligible clients into correct eligibility categories.*

Third Party Liability Identification

(page 24)

- Montana's Medicaid Plan requires SWICA and SSA data matches at application for all individuals

RECOMMENDATION #2

We recommend the Department of Public Health and Human Services conduct the State Wage Information Collection Agency and Social Security Administration data matches to identify potential liable third parties at application for all Medicaid applicants, as required by the State of Montana Medicaid Plan.

Provider Fraud Investigations

(page 26)

- Closed 692 investigations during period
- Sample of 40 closed case files
 - Unable to locate 3 files
 - Documentation in 1 file incomplete
- Focus on new provider reviews

Provider Fraud Investigations

(page 26)

RECOMMENDATION #3

We recommend the Department of Public Health and Human Services:

- A. Establish and maintain internal control to ensure the Surveillance Utilization Review Section investigations for provider fraud are completely documented and retained.*
- B. Implement changes in department policy and seek changes in legislation to remove restrictions on provider overpayment audits.*

Beneficiary Fraud Investigations

(page 27)

RECOMMENDATION #4

We recommend the Department of Public Health and Human Services:

- A. Update policies and procedures for Medicaid beneficiary fraud investigations to require full investigations by department staff.*
- B. Make referrals to law enforcement when there is reason to believe a beneficiary has defrauded the program, as required by federal regulations.*

Suspending Participation

(page 28)

- Section 45-6-313, MCA, requires a person convicted of Medicaid fraud be suspended from participation
- No mechanism exists to identify individuals convicted of Medicaid fraud

RECOMMENDATION #5

We recommend the Department of Public Health and Human Services:

- A. Develop a system to receive notification of individuals convicted of Medicaid fraud.*
- B. Suspend individuals convicted of Medicaid fraud from receiving benefits for minimum time periods required by state law.*

Contract Disclosures

(page 29)

- Required language related to department and suspension is excluded in the contract for premium billing and collections services
- Department controls did not identify or prevent the omission

RECOMMENDATION #6

We recommend the Department of Public Health and Human Services:

- A. Establish and document internal controls to ensure all relevant contract disclosures and attachments are included in the Medicaid contract agreement prior to signature.*
- B. Comply with federal regulations by including all applicable and required language in Medicaid contracts with nonfederal entities.*

CHIP Health Insurance Premium Payments

(page 30)

Federal regulations permit a single Medicaid eligibility group to receive CHIP-funded insurance premium payments. Department controls did not prevent other eligibility groups from receiving CHIP-funded premium payments.

RECOMMENDATION #7

We recommend the Department of Public Health and Human Services:

- A. Develop internal control procedures to ensure the appropriate funding source is used for its Health Insurance Premium Payment program.*
- B. Use federal Children's Health Insurance Program funds to pay third-party health insurance premiums only for those individuals who qualify, as required by federal regulations.*

Department of Public Health and Human Services

Financial-Compliance Audit

Two Fiscal Years Ended June 30, 2019

SNAP, TANF, and WIC Service Organization (page 32)

RECOMMENDATION #8

We recommend the Department of Public Health and Human Services:

- A. Obtain an annual SOC-1 Type 2 report over the electronic benefits processing service provider for Supplemental Nutrition Assurance Program, as required by federal regulations.*
- B. Establish and maintain adequate internal controls to ensure Supplemental Nutrition Assurance Program, Temporary Assistance for Needy Families, and Special Supplemental Nutrition Program–Women, Infants and Children benefit transactions achieve applicable compliance requirements.*

SNAP Related Recommendations

Federal Cash Draws (page 38)

Required SNAP Reconciliation (page 35)

- The department determines amount of benefits, but the EBT Service provider handles the payments and federal reimbursement requests.
- The department records the expense and revenue in the state's accounting system.

SNAP Federal Cash Draws

(page 38)

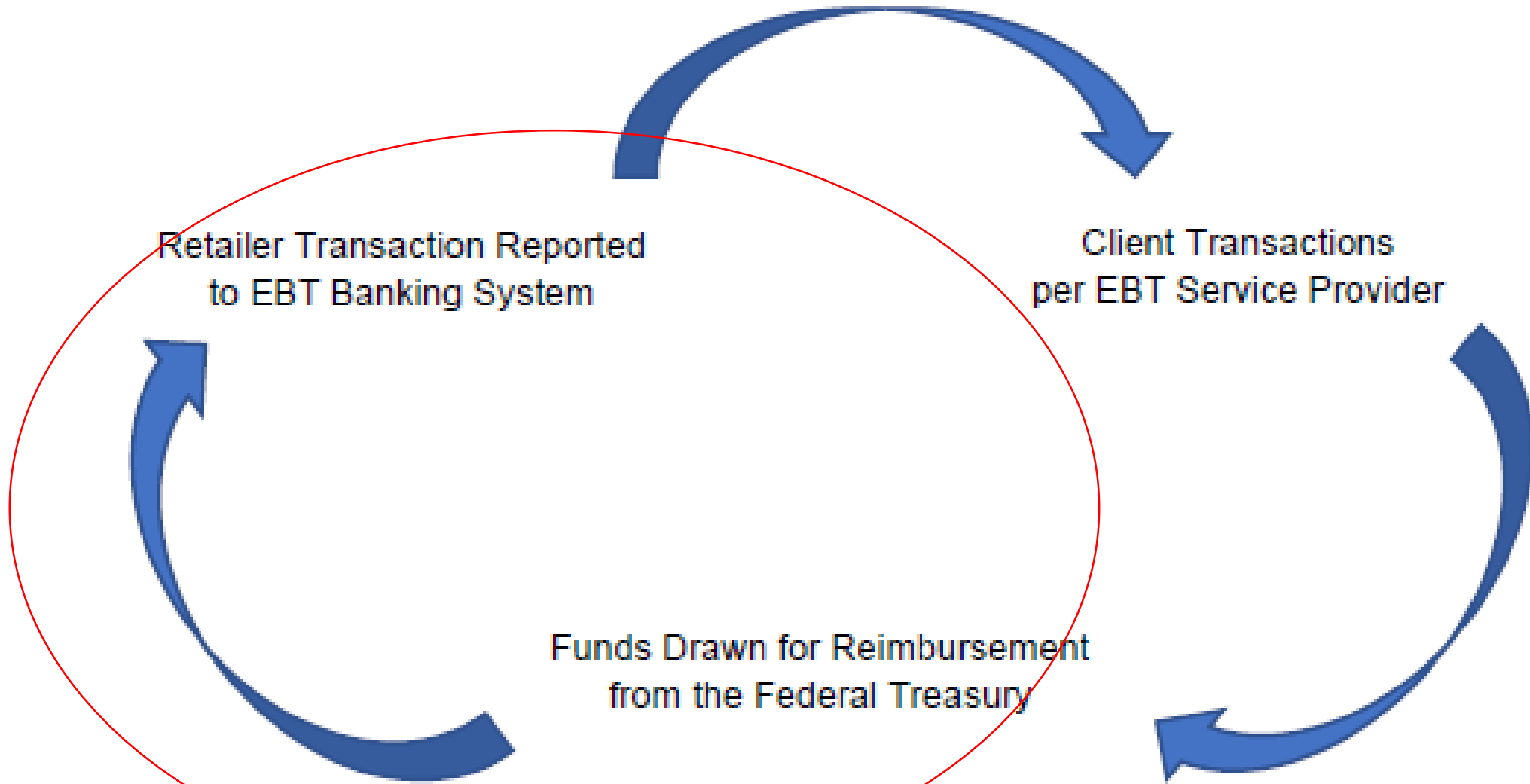
RECOMMENDATION #10

We recommend the Department of Public Health and Human Services:

- A. *Work with the Department of Administration to properly update the Treasury State Agreement for benefit draws related to the Supplemental Nutrition Assistance Program.*
- B. *Comply with the Treasury State Agreement by completing the Supplemental Nutrition Assistance Program benefit draws from the federal government until such time as the Treasury State Agreement is revised.*

Figure 5

Required SNAP Reconciliations



Source: Compiled by the Legislative Audit Division.

Required SNAP Reconciliation

(page 37)

RECOMMENDATION #9

We recommend the Department of Public Health and Human Services:

- A. *Establish and maintain adequate internal controls to ensure reconciliations of Supplemental Nutrition Assistance Program benefits issued, redeemed, and unredeemed are conducted, as required by federal regulations.*
- B. *Conduct and document follow-up on differences identified in required reconciliations.*

Automated Data Processing (ADP) System Accuracy (page 40)

RECOMMENDATION #11

We recommend the Department of Public Health and Human Services enhance internal control and compliance with federal regulations for the Supplemental Nutrition Assistance Program by:

- A. Maintaining documentation to demonstrate consideration of the results of monthly Quality Assurance Division eligibility audits.*
- B. Conducting and documenting training for staff completing eligibility determinations to address common errors, when identified by monthly Quality Assurance Division eligibility audits.*
- C. Updating the Accounts Receivable Management System to automatically generate the beginning balances for the FNS-209 quarterly reports, as required by federal regulations.*
- D. Ensure the FNS-46 report is supported by accurate information via an audit of the EBT service organization or a documented monthly reconciliation.*

TANF Related Recommendations

(page 41)

- Recommendation #12 was also in the prior audit.
- Recommendation #13 and 14 both have internal control elements in the recommendations.
- Recommendation #14 also includes a way in which the department can improve the accuracy of their federal reporting in the TANF program.

Foster Care Related Recommendations

(page 45)

- Recommendation #15 was also in the prior audit.
- Recommendation #16 involves subrecipient agreements.
- Recommendation #17 involves unallowable payments
- Recommendation #18 includes ways in which the department can improve the accuracy of their federal reporting in the Foster Care program.

Child Care Development Fund Related Recommendations (page 52)

- Recommendation #19 is related to the Period of Performance.
- Recommendation #20 involves Health and Safety requirements.
- Recommendation #21 is related to a prior audit recommendation.

Centrally Provided Services

(page 58)

- Recommendation #22 is related to a prior audit recommendation.
- Recommendation #23, 24 and 25 involve cash management.

Final Recommendations

(page 64)

- Recommendation #26 has been recommended twice before.
- Recommendation #27 involves Construction Work in Progress.

Department of Public Health and Human Services

Financial-Compliance Audit

Two Fiscal Years Ended June 30, 2019