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 \times \text{Control Risk} \times \text{Detection Risk}

Audit Risk must be LOW

<table>
<thead>
<tr>
<th>Inherent Risk</th>
<th>Without controls, what could go wrong?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Risk</td>
<td>What controls exist, and are they reliable and testable?</td>
</tr>
<tr>
<td>Detection Risk</td>
<td>Given inherent and control factors, what other tests needed?</td>
</tr>
</tbody>
</table>
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
### Table 5
Results of Sample: Medicaid and CHIP Case File Information to CHIMES Information
Fiscal Years 2018 and 2019

<table>
<thead>
<tr>
<th>Outcome</th>
<th>Key Eligibility Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Household Factor</td>
</tr>
<tr>
<td>Case File Information Supported</td>
<td>44</td>
</tr>
<tr>
<td>Case File Information Not Supported</td>
<td>6</td>
</tr>
<tr>
<td>No State Tax Data Available</td>
<td>13</td>
</tr>
<tr>
<td>Total</td>
<td>63</td>
</tr>
</tbody>
</table>

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>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department’s Eligibility Determination Supported</td>
<td>21</td>
</tr>
<tr>
<td>Department’s Eligibility Determination Not Supported:</td>
<td></td>
</tr>
<tr>
<td>Incorrect Eligibility Category</td>
<td>9</td>
</tr>
<tr>
<td>Not Eligible Due to Income Limit</td>
<td>16</td>
</tr>
<tr>
<td>Not Eligible Due to Residency Requirement</td>
<td>1</td>
</tr>
<tr>
<td>No State Tax Data Available</td>
<td>16</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>5.8% Total FY18 Expenditures</th>
<th>5.8% Total FY19 Expenditures</th>
<th>5.8% Federal FY18 Expenditures</th>
<th>5.8% Federal FY19 Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicaid</td>
<td>$99.2 million</td>
<td>$98.9 million</td>
<td>$76.5 million</td>
<td>$75.5 million</td>
</tr>
<tr>
<td>CHIP</td>
<td>$5.5 million</td>
<td>$5.8 million</td>
<td>$5.4 million</td>
<td>$5.7 million</td>
</tr>
<tr>
<td>Total</td>
<td>$104.7 million</td>
<td>$104.7 million</td>
<td>$81.9 million</td>
<td>$81.2 million</td>
</tr>
<tr>
<td></td>
<td>$209.4 million (state and federal costs)</td>
<td>$163.1 million (federal costs only)</td>
<td>High Contingency Estimate</td>
<td></td>
</tr>
</tbody>
</table>
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
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.
**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.
SUSPLAINING PARTICIPATION

• 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
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.
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

Retailer Transaction Reported to EBT Banking System

Client Transactions per EBT Service Provider

Funds Drawn for Reimbursement from the Federal Treasury

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