

FINANCIAL-COMPLIANCE AUDIT

Department of Public Health and Human Services

For the Two Fiscal Years Ended June 30, 2019

APRIL 2020

19-14

REPORT SUMMARY

The Department of Public Health and Human Services (department) expended more than \$4 billion in state and federal funds for benefits and claims costs incurred during the audit period. Our audit identified nearly \$185 million in federal costs resulting from a violation or probable violation of federal regulation. These costs are defined in federal regulations as questioned costs. Some questioned costs are related to ongoing compliance issues related to centrally performed functions such as the allocation of costs benefitting more than one state or federal program. Other questioned costs stem from changes in department policy or weaknesses in the department's internal controls. Policy changes include eligibility verification processes which were first subject to review as part of this audit, as well as changes to a different kind of review of the department's service providers. Internal control weaknesses include breakdowns in communication or overall understanding where multiple divisions within the department are responsible for separate pieces of an overall process. As part of the state's Single Audit, federal grantor agencies may require the department to repay the questioned costs.

## Context

The department is responsible for administering and supervising Montana's public assistance programs. The department's overarching goals are to provide for the health, safety, and self-sufficiency of all Montanans.

Department expenditures for the audit period included just over \$4 billion in federal funds. We audited 11 of approximately 120 federal programs administered by the department. These programs comprise over 95 percent of the federal expenditures, with Medicaid and the Supplemental Nutrition Assistance Program (SNAP) comprising approximately 82 percent of that total. Benefits and claims expenditures from all funding sources totaled over \$4.5 billion for the biennium, which is a \$500 million increase from the previous biennium. The increase is mostly the results of Medicaid which continued to climb in fiscal year 2018, and stabilized in fiscal year 2019.

The department contracts with service providers to process Medicaid claims and

SNAP benefits transactions. The department also manages over 100 information systems to handle eligibility, contractor payments, and other data intensive elements of its programs.

We audited the eleven department programs with federal expenditures ranging between \$2.1 million and \$2.9 billion for the two fiscal years ended June 30, 2019, as major federal programs. We performed tests to determine whether the department complied with certain federal regulations in administering those programs. Other testing included, but was not limited to, consideration of transactions related to 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 regulations.

## Results

The prior audit report contained 13 recommendations, of which the department implemented 6, partially implemented 2, and did not implement 5 recommendations. Recommendations not fully implemented are further discussed in this report.

This report includes 27 recommendations primarily related to improving internal controls and compliance with federal laws and regulations. The report also includes a recommendation related to the department's accounting for capital projects not completed by the end of a fiscal year. These incomplete capital projects are commonly called Construction Work in Process (CWIP). Errors in the department's CWIP accounting resulted in overstated assets totaling more than \$31 million at the end of each fiscal year 2018 and 2019.

We issued a qualified opinion on the department's financial schedules as a result of an omitted disclosure regarding benefit payments to ineligible individuals under the department's Medicaid and Children's Health Insurance Programs. Based on the results of our federal compliance testing, we estimate benefit payments to ineligible individuals to be \$84.1 million for the period under audit. The department disagrees with both our audit methodologies and our projection processes, which is further discussed in this report.

Recommendation Concurrence	
Concur	11
Partially Concur	7
Do Not Concur	9
<b>Source: Agency audit response included in final report.</b>	

For a complete copy of the report (19-14) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to [lad@mt.gov](mailto:lad@mt.gov); or check the web site at <https://leg.mt.gov/lad/audit-reports>  
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