



A REPORT
TO THE
MONTANA
LEGISLATURE

LEGISLATIVE AUDIT
DIVISION

21-14

FINANCIAL-COMPLIANCE AUDIT

*Department of Public
Health and Human
Services*

*For the Two Fiscal Years Ended
June 30, 2021*

MAY 2022

FINANCIAL-COMPLIANCE AUDITS

LEGISLATIVE AUDIT COMMITTEE

REPRESENTATIVES

KIM ABBOTT

Kim.Abbott@mtleg.gov

DENISE HAYMAN, CHAIR

Denise.Hayman@mtleg.gov

EMMA KERR-CARPENTER

Emma.KC@mtleg.gov

TERRY MOORE

terry.moore@mtleg.gov

MATT REGIER

Matt.Regier@mtleg.gov

JERRY SCHILLINGER

jerry.schillinger@mtleg.gov

SENATORS

JASON ELLSWORTH, VICE CHAIR

Jason.Ellsworth@mtleg.gov

JOHN ESP

Johnesp2001@yahoo.com

PAT FLOWERS

Pat.Flowers@mtleg.gov

TOM JACOBSON

Tom.Jacobson@mtleg.gov

TOM MCGILLVRAY

Tom.McGillvray@mtleg.gov

MARY McNALLY

McNally4MTLeg@gmail.com

MEMBERS SERVE UNTIL A
MEMBER'S LEGISLATIVE TERM
OF OFFICE ENDS OR UNTIL A
SUCCESSOR IS APPOINTED,
WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE
(STATEWIDE)
1-800-222-4446
(IN HELENA)
444-4446
LADHotline@mt.gov
www.montanafraud.gov

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

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2019, was issued March 30, 2020. The Single Audit Report for the two fiscal years ended June 30, 2021, will be issued by September 30, 2022.

AUDIT STAFF

JESSICA CURTIS

JENNIFER ERDAHL

DONALD ERDMANN

ADAM HEFENIEDER

LESLIE LAHTI

KATIE MAJERUS

NOLAN PREESHL

ALEXA O'DELL

KAREN E. SIMPSON

MARY V. YUREWITCH

KELLY ZWANG

Reports can be found in electronic format at:

<https://leg.mt.gov/lad/audit-reports>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

May 2022

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 for the two fiscal years ended June 30, 2021. This report includes 19 recommendations related to improvements in internal controls and compliance with federal regulations and one error related to information on the department's Schedule of Expenditures of Federal Awards spreadsheet. Federal program recommendations address the need for overarching policies and procedures related to contract disclosures, reporting, allocated costs, as well as specific recommendations to nine of the federal programs administered by the department.

The department's written response to the audit recommendations is included beginning on page C-1 of the audit report. While the department concurs or conditionally concurs with all recommendations, in some cases the department added additional context supporting its position. In all cases, the information included in the department's response was considered as part of our audit.

We thank the director and his staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	iii
Appointed and Administrative Officials	iv
Report Summary	S-1
CHAPTER I – INTRODUCTION AND BACKGROUND	1
Audit Scope.....	1
Background.....	1
Coronavirus	4
Organizational Structure	5
Prior Audit Recommendations.....	7
Medicaid Contract Disclosures	7
Foster Care Procurement for Services.....	7
Medicaid Provider Fraud.....	8
Suspending Participation in Medicaid	8
Excess Federal Cash	9
Significant Negative Cash	10
CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	13
Medicaid and Children’s Health Insurance Programs Eligibility.....	13
Medicaid and CHIP Eligibility and Case File Support.....	14
Eligibility Issues	16
Summary	17
CHIP Aged-Out Individuals	18
Medicaid and CHIP Renewal Process	19
Subrecipient Monitoring	20
Required Contract Disclosures.....	21
Foster Care.....	21
Temporary Assistance For Needy Families	22
Epidemiology and Laboratory Capacity.....	23
Coronavirus Relief Fund.....	23
Summary	23
ELC Post-Award Monitoring Requirements	24
Missing Grant Applications	25
Subrecipient Classification	26
Allowable Costs for Federal Awards	27
Foster Care Subawards.....	27
Epidemiology and Laboratory Capacity.....	29
Summary	30
CRF Quarantine Isolation Benefits Payments	31
Internal Control Documentation.....	31
LIHEAP Reporting Controls.....	32
TANF ACF-199 Reporting Controls	32
CCDF Tracking and Monitoring.....	33
Cost Allocation Errors.....	34
Federal Funding Accountability and Transparency Act (FFATA) Reports	36
Foster Care.....	36
Temporary Assistance for Needy Families.....	37

Epidemiology and Laboratory Capacity37
 Summary38
 Foster Care Reporting.....39
 Medicaid Confidentiality Agreement.....41
 System and Organization Controls (SOC) Reports42
 SOC Report for SNAP and TANF Programs.....42
 CHIP SOC Report43
 Child Care Provider Inspections44
 Schedule of Expenditures of Federal Awards (SEFA)45

**CHAPTER III – CHANGES IN AUDIT APPROACH FOR MEDICAID AND
 CHIP ELIGIBILITY47**

State Legislative Changes47
 Compliance Supplement Changes48
 Questioned Costs48
 Payment Error Rate Measurement (PERM) Program.....49
 Summary50

INDEPENDENT AUDITOR’S REPORT AND DEPARTMENT FINANCIAL SCHEDULES

Independent Auditor’s Report A-1
 Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2021A-4
 Schedule of Changes in Fund Equity for the Fiscal Year Ended June 30, 2020 A-5
 Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2021.....A-6
 Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2020 A-7
 Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended
 June 30, 2021A-8
 Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended
 June 30, 2020 A-9
 Notes to the Financial Schedules A-11

REPORT ON INTERNAL CONTROL AND COMPLIANCE

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* B-1

DEPARTMENT RESPONSE

Department of Public Health and Human Services..... C-1

FIGURES AND TABLES

Figures

Figure 1	Expenditures by Fund Type for the Two Fiscal Years Ended June 30, 2021	2
Figure 2	Breakdown of DPHHS Federal Program Expenditures.....	3
Figure 3	DPHHS Organizational Chart - May 2021	11
Figure 4	DPHHS Organizational Chart - December 2021	12
Figure 5	Medicaid Eligibility Issues in Tested Cases	15
Figure 6	CHIP Eligibility Issues in Tested Cases	16

Tables

Table 1	Coronavirus Impact on Selected Federal Programs.....	4
Table 2	Federal Portion of Unsupported Foster Care Subrecipient Payments	29
Table 3	Total Costs Allocated to Select Federal Programs for Fiscal Years 2020 and 2021.....	35
Table 4	Summary of FFATA Report Testing by Number of Reports and Associated Dollar Amounts	38
Table 5	Benefits Processed by EBT Service Provider	42
Table 6	National and Montana Fee-for-Service (FFS) and Eligibility PERM Rates	49

APPOINTED AND ADMINISTRATIVE OFFICIALS

The information below represents department officials as of May 2021. The department has since reorganized as reflected on the adjacent page.

Department of Public Health and Human Services	Adam Meier, Director
	Laura Smith, Deputy Director
	Peter Bovingdon, Chief Legal Counsel, Office of Legal Affairs
	Todd Harwell, Co-Administrator, Public Health and Safety Division
Economic Security Services Branch	Jim Murphy, Co-Administrator, Public Health and Safety Division
	Laura Smith, Economic Security Services Branch Manager
	Chad Dexter, Administrator, Child Support Services Division
	Marti Vining, Administrator, Child and Family Services Division
	Chanda Hermanson, Administrator, Disability Employment and Transitions Division
	Gene Hermanson, Administrator, Human and Community Services Division
	Jamie Palagi, Administrator, Early Childhood and Family Support Division
Medicaid and Health Services Branch	Marie Matthews, Medicaid and Health Services Branch Manager
	Mary Eve Kulawik, Medicaid & CHIP State Plan Amendment & Waiver Coordinator
	Zoe Barnard, Administrator, Addictive and Mental Disorders Division
	Rebecca de Camara, Administrator, Development Services Division
	Darci Wiebe, Administrator, Health Resources Division
	Barb Smith, Administrator, Senior and Long-Term Care Division
	Operations Services Branch
John McCarthy, Administrator, Technology Services Division	
Carter Anderson, Administrator, Quality Assurance Division	
Kim Aiken, Administrator, Business and Financial Services Division	

The information below represents department officials as of March 2022.

**Department of Public
Health and Human
Services**

Adam Meier, Director
 Charlie Brereton, Chief of Staff
 Paula Stannard, Chief Legal Counsel, Office of Legal Affairs
 Carter Anderson, Office of Inspector General
 Kim Aiken, Chief Financial Officer
 Corinne Kyler, Administrator, Business and Financial Services Division
 Carrie Albro, Chief Information Officer
 Vacant, Administrator, Technology Services Division
 Marie Matthews, Chief Innovation Officer, Office of Health and
 Human Services Innovation
 Todd Harwell, Administrator, Public Health and Safety Division

**Economic Security
Services**

Erica Johnston, Economic Security Services Executive Director
 Morgan Taylor, Chief Policy Officer
 Christie Twardoski, Administrator, Child Support Services Division
 Nikki Grossberg, Acting Administrator, Child and Family Services
 Division
 Chanda Hermanson, Administrator, Disability Employment and
 Transitions Division
 Gene Hermanson, Human and Community Services Division
 Jamie Palagi, Administrator, Early Childhood and Family Division

**Medicaid and Health
Services**

(vacant), Medicaid and Health Services Executive Director
 (vacant), Medicaid Chief Financial Officer
 Mary Eve Kulawik, Medicaid & CHIP State Plan Amendment &
 Waiver Coordinator
 (vacant), Chief of Facilities
 Rebecca de Camara, Administrator, Behavioral Health and
 Developmental Disabilities Division
 Darci Wiebe, Administrator, Health Resources Division
 Barb Smith, Administrator, Senior & Long-Term Care Division

For additional information concerning the Department of Public Health and
 Human Services, contact:

Kim Aiken
 Chief Financial Officer
 111 North Sanders, Room 301 Helena MT 59620
 P.O. Box 4210, Helena MT 59604-4210
 (406) 444-6900
 e-mail: Kim.Aiken@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

Department of Public Health and
Human Services

FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2021

BACKGROUND

The Department of Public Health and Human Services (department) administers a broad spectrum of social service and health programs for Montana. These programs include Medicaid, foster care and adoption services, nursing home and child care licensing programs, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health services including infectious disease control.

The department contracts with various entities throughout Montana to meet the needs of its citizens.

The department manages state facilities including 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 Intensive Behavior Center (Boulder).

Director: Adam Meier

The Department of Public Health and Human Services expended approximately \$3.48 billion and \$2.94 billion in fiscal years 2021 and 2020, respectively. This represents an overall spending increase of approximately 18 percent from the prior audit period, and is mainly due to the department's involvement in responding to the COVID-19 public health emergency. In addition to increased federal funding, many department programs employed flexibilities, as permitted through government waivers, to meet the needs of state citizens during the pandemic. Of the 19 recommendations in our report, 8 are related to program activities impacted by the COVID-19 public health emergency.

AUDITOR'S OPINION (page A-1): UNMODIFIED

We found the department's financial schedules and note disclosures present fairly the department's activity in all material respects and issued an unmodified opinion. This means a reader can rely on the information presented and the underlying financial records.

For the full context of the department's financial activity, see the financial schedules and notes beginning on page A-4.

RECOMMENDATIONS:

In this report, we issued the following recommendations:

To the department: 19	Department concurs with: 17
To the legislature: 0	Department conditionally concurs with: 2

In this report, we determined the implementation status of 27 recommendations in the prior audit:

Fully Implemented: 15
Partially Implemented: 8
Not Implemented: 4

SELECTED RECOMMENDATIONS:**RECOMMENDATION #1 (page 18):**

Internal Control, Federal Compliance

The department should ensure Medicaid and Children's Health Insurance Program eligibility decisions are fully supported, follow up on

(continued on back)

For the full report or more information, contact the Legislative Audit Division.

leg.mt.gov/lad

Room 160, State Capitol
PO Box 201705
Helena, MT 59620-1705
(406) 444-3122

The mission of the Legislative Audit Division is to increase public trust in state government by reporting timely and accurate information about agency operations, technology, and finances to the Legislature and the citizens of Montana.

To report fraud, waste, or abuse:

Online
www.Montanafraud.gov

Email
LADHotline@mt.gov

Call
(Statewide)
(800) 222-4446 or
(Helena)
(406) 444-4446

Text
(704) 430-3930

inconsistencies as required, and place eligible individuals in correct eligibility categories.

Department response: Concur

RECOMMENDATION #2 (page 19):

Internal Control, Federal Compliance

The department should enhance internal controls and remove individuals who have aged out of the Children's Health Insurance Program.

Department response: Concur

RECOMMENDATION #4 (page 24):

Internal Control, Federal Compliance

The department should establish internal controls and ensure required subrecipient disclosures are included for multiple programs per federal regulations.

Department response: Concur

RECOMMENDATION #8 (page 30):

Internal Control, Federal Compliance

The department should implement internal controls for its Foster Care and Epidemiology and Laboratory Capacity for Infectious Disease federal programs to ensure they obtain, review, and approve detailed support for subrecipient payments to confirm payments are for activities allowed by federal regulations.

Department response: Concur

RECOMMENDATION #12 (page 36):

Internal Control, Federal Compliance

The department should enhance internal controls and allocate costs as specified in the cost allocation plan as required by federal regulations.

Department response: Concur

RECOMMENDATION #19 (page 45):

Internal Control, Federal Compliance, Financial Reporting

The department should enhance internal controls to report information for each federal financial assistance program on a separate row of the department's Schedule of Expenditures of Federal Awards spreadsheet.

Department response: Concur

REPORT ON INTERNAL CONTROL AND COMPLIANCE (page B-1):

In this report, we identified the following:

Material Weaknesses in Internal Control: 1

Significant Deficiencies in Internal Control: 0

Material Non-Compliance: 0

Other Matters: 0

For the full context of this information, including the distinction between the types of items reported, see the report beginning on page B-1.

Chapter I – Introduction and Background

Audit Scope

We performed a financial-compliance audit of the Department of Public Health and Human Services (department or DPHHS) for the two fiscal years ended June 30, 2021. The objectives of the audit were to:

1. Determine whether the department complied with selected 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.

We focused our audit efforts primarily on the department's activity related to its federal programs. The department receives over \$2 billion each year from the federal government, mainly related to public assistance programs. Changes in activity resulting from the COVID-19 public health emergency are discussed in more detail beginning on page 3. Many of the department's 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 encompassed these state dollars. Other testing included, but was not limited to, transactions related to federal revenues, 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 19 recommendations to the department. These recommendations address areas where the department can improve internal controls and compliance with federal regulations and address errors on the department's Schedule of Expenditures of Federal Awards spreadsheet.

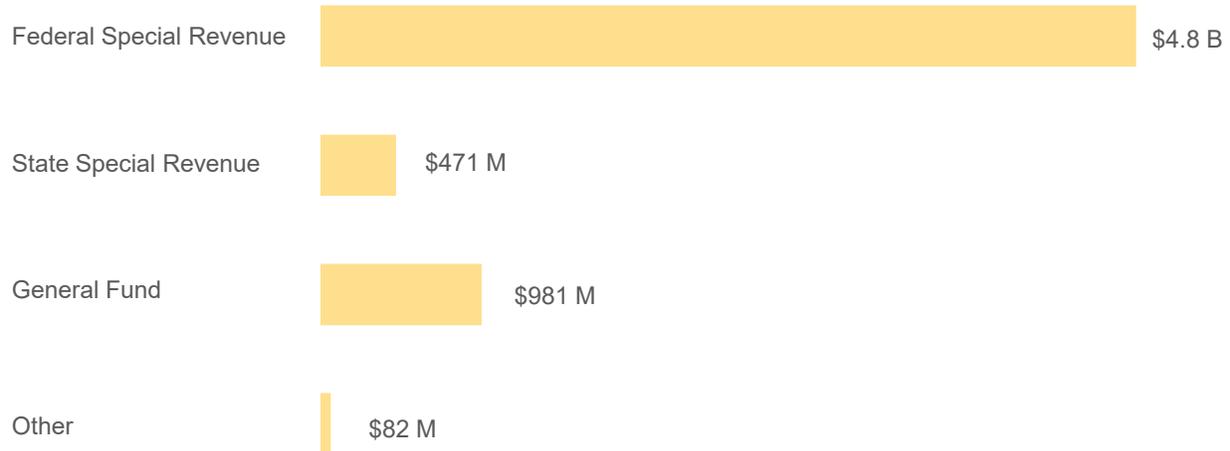
Background

The department spent approximately \$3.48 billion in fiscal year 2021, and \$2.94 billion in fiscal year 2020, administering a broad spectrum of social service and health programs for Montana. The programs include Medicaid, foster care and adoption, healthcare facility licensing, long-term care, aging services, substance abuse and treatment services, mental health services, vocational rehabilitation, disability services, child support enforcement activities, and public health services, including infectious 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 Intensive Behavior Center (IBC), Boulder.

Total expenditures by fund for the last two fiscal years are identified in Figure 1 below. Benefits and claims expenditures account for approximately 80 percent of the total expenditures.

Figure 1
Expenditures by Fund Type for the Two Fiscal Years Ended June 30, 2021



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

Federal regulations provide guidance to define major federal programs subject to audit for Montana. Due to changes in federal regulations, only those major federal programs meeting specific risk criteria are audited.

We audited ten department programs with federal expenditures ranging between \$10.6 million and \$3.4 billion for the last two fiscal years as major federal programs. We performed tests to determine whether the department complied with specific federal regulations in administering these programs.

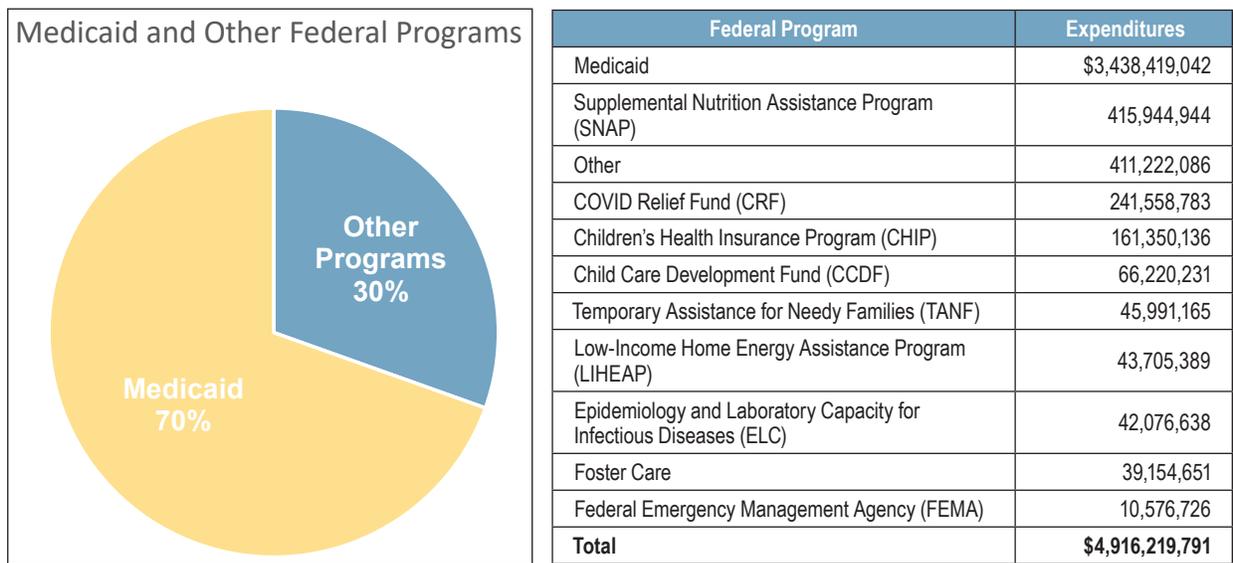
The purpose of the 10 federal programs included in the scope of our audit is outlined below.

- ◆ **Coronavirus Relief Fund** – provided fast and direct economic assistance for American workers, families, small businesses, and industries through implementation of various programs to address issues related to the onset of the COVID-19 public health emergency. Funding came from the Coronavirus Aid, Relief, and Economic Security (CARES) Act (2020) and the Coronavirus Response and Consolidated Appropriations Act (2021).
- ◆ **Child Care Development Fund (CCDF)** – aims to increase the availability, affordability, and quality of child care services. Funds are used to subsidize child care for low-income families when the parents are working or attending training or educational programs.
- ◆ **Children’s Health Insurance Program (CHIP)** – provides child health assistance to uninsured, low-income children through a combination of state and federal sums of money.
- ◆ **Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)** –protects the public health and safety of the American people by enhancing the capacity of public health agencies to effectively detect, respond, prevent and control known and emerging (or re-emerging) infectious diseases.

- ◆ **Disaster Grants - Public Assistance (FEMA)** – assists state, tribal, territorial, and local governments, so that communities can quickly respond to and recover from major disasters or emergencies declared by the President.
- ◆ **Foster Care** – uses state and federal sums of money to provide safe and stable out-of-home care to children at substantial risk of abuse, neglect, or abandonment. As allowed by federal regulations, the department can use a portion of TANF funds to pay costs associated with children in Foster Care.
- ◆ **Low-Income Home Energy Assistance (LIHEAP)** – assists low-income people in meeting home heating and cooling costs, increasing their self-sufficiency, and reducing their vulnerability resulting from energy needs.
- ◆ **Medical Assistance Program (Medicaid)** – uses federal and state sums of money to provide medical assistance to residents whose incomes and resources are insufficient to meet the costs of necessary medical services. Medicaid serves as the nation’s primary source of health coverage for low-income populations.
- ◆ **Supplemental Nutrition Assistance Program (SNAP)** – assists low-income households buy the food they need for good health.
- ◆ **Temporary Assistance for Needy Families (TANF)** – provides time-limited assistance to needy families with children so they can be cared for in their own homes or in the homes of relatives. Other program objectives are to end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; to prevent and reduce out-of-wedlock pregnancies; and to encourage the formation and maintenance of two-parent families.

Figure 2 identifies the department’s federal programs we audited and the related expenditures recorded on the state’s accounting records. Figure 2 also compares Medicaid to all other federal program expenditures.

Figure 2
Breakdown of DPHHS Federal Program Expenditures



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

Coronavirus

Many federal programs administered by the department received additional federal funding or increased flexibility to achieve programmatic goals as a result of the COVID-19 public health emergency. Additionally, the department received pandemic-related federal awards for programs new to the department. This includes funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act received through the Governor's Office and funding from the Federal Emergency Management Agency's Disaster Grants received in coordination with the Governor's Office and Department of Military Affairs. The table below summarizes the ten federal awards included in our audit scope, as well as how each program was impacted by Coronavirus.

Table 1
Coronavirus Impact on Selected Federal Programs

Federal Program	Coronavirus Impact
CCDF	Emergency provisions included programmatic flexibilities such as temporary acceptance of online CPR/ First Aid course completion for care providers, temporary suspension of on-site monitoring and inspections of providers, and permitting staff hires to work provisionally until such time fingerprinting and background services were more readily available. Additional funding totaling \$10.1 million was also received.
CHIP	Various waivers were obtained related to disaster relief provisions. Under the waivers, timely processing of renewals and/or deadlines for families to respond to renewal requests could be temporarily waived for CHIP enrollees. Additionally, the department could delay acting on certain changes in circumstances for CHIP beneficiaries impacted during the coronavirus public health emergency.
CRF	Approximately \$241.5 million in CARES Act funding were expended as part of several programs developed by the Governor's Office. Department-administered programs included: COVID testing; COVID relief payments to medical facilities for any days in which a patient was either actively or presumptively positive; advance payment of funds to social service nonprofit organizations to retain existing programs, services, and employees; and grants to licensed facilities to maintain access to safe child care during the pandemic.
Disaster Grant	The department participated in two applications for Disaster Grant funding from FEMA. All funds were received as a direct result of Coronavirus, and were expended mainly for supplies such as gowns, thermometers, gloves, and masks.
ELC	Approximately 89% of expenditures incurred for this program were a result of the coronavirus public health emergency, as additional federal funds totaling \$152.3 million were awarded during the period. Portions of this funding are available to the department through July 2024.
Foster Care	No waivers or programmatic changes were identified. However, the department suspended travel to tribal subrecipients and instead provided support in a virtual environment.
LIHEAP	On-site monitoring visits were replaced with remote monitoring.
Medicaid	The department accepted an enhanced federal match for benefit payments, which decreased the state share of Medicaid benefit payments by 6.2%. In exchange, the department is required to retain clients on the program regardless of eligibility status, with exceptions for death, relocation out of state, and at the client's request, throughout the public health crisis period. Enhanced benefit payments resulted in over \$70 million in increased federal expenditures for the audit period. This resulted in an equivalent decrease in state General Fund expenditure. The department also obtained waivers temporarily waiving timely processing of renewals.
SNAP	Various waivers were obtained to provide maximum benefits based on household effective April 2020 and a 15% increase in maximum and minimum benefits from January through September 2021. Additional waivers provided flexibilities in reporting, approval of applications and recertifications, and benefit availability to clients in certain circumstances.
TANF	Programmatic changes were limited to a waiver for compliance with certain client work requirements which included summer months of 2020.

Source: Compiled by Legislative Audit Division.

Organizational Structure

During our prior audit, the department organization consisted of three branches and twelve divisions. Since that time, the department reorganized multiple times. In December 2019, the department added the Early Childhood & Family Support Division within its Economic Security Services Branch. The department's organizational structure as of May 2021 is in Figure 3 on page 11.

Organizational information and employee full-time equivalent (FTE) positions in effect for the audit period are described below.

The **Director's Office** (64.75 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 Public Health and Safety Division** (155.25 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 aimed at the prevention of disease and promotion of health.

The **Operations Services Branch** (241.10 FTE) includes the Office of Budget and Finance, Internal Audit and Strategic Planning, Research and Analysis (45.60 FTE). It also includes the following divisions:

- ◆ **The Business and Financial Services Division** (54.00 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** (85.50 FTE) monitors and ensures the integrity and cost effectiveness of programs administered by the department. Services include: oversight of health care providers; investigation of allegations of fraud of recipient eligibility for federal programs; identification of parties responsible for paying client medical expenses; and provision of hearings for clients and providers participating in department programs.
- ◆ **The Technology Services Division (TSD)** (56.00 FTE) is responsible for planning, implementing, and operating 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 **Medicaid and Health Services Branch** (1,167.83 FTE) includes the Medicaid Systems Support Program (15.00 FTE) and the Medicaid & CHIP State Plan Amendment and Wavier Coordinator. It also includes the following divisions:

- ◆ **The Senior and Long-Term Care Division** (216.55 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** (155.91 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 various employment outcome-related services. The division operates the Intensive Behavior Center in Boulder and administers the Developmental Disabilities Program.
- ◆ The **Addictive and Mental Disorders Division** (741.75 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.
- ◆ The **Health Resources Division** (43.62 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** (1,244.59 FTE) includes the following divisions:

- ◆ The **Human and Community Services Division** (492.50 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. Services include cash assistance, food subsidies, early childhood care, and energy assistance.
- ◆ The **Child Support Services Division** (129.81 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** (428.97 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, adoptive, or guardianship homes.
- ◆ The **Disability Employment and Transitions Division** (134.97 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 **Early Childhood and Family Support Division** (59.24 FTE) provides services to children and families. This includes childcare licensing, early childhood services, early intervention services for young children with developmental delays, and child nutrition programs.

As of December 2021, the department eliminated the Operations Services branch, reorganized most functions into nine divisions under Economic Security Services and Medicaid and Health Services executive directors, and modified the structure under the director's office. The department's organization structure as of December 2021, are in Figure 4 on page 12.

Prior Audit Recommendations

Our prior audit report contained 27 recommendations to the department. The department implemented 15 recommendations, partially implemented 8 recommendations, and did not implement 4 recommendations. We generally consider a recommendation implemented when the department has addressed the issue or when the issue is no longer relevant given the circumstances. Recommendations not fully implemented are discussed below and on pages 14 (Medicaid and CHIP Eligibility and Case File Support), 21 (Required Contract Disclosures - Foster Care), 27 (Allowable Costs for Federal Awards - Foster Care Subawards), 33 (CCDF Tracking and Monitoring), 34 (Cost Allocation Errors), and 42 (SOC Report for SNAP and TANF Programs). Changes in audit approach for Medicaid and CHIP eligibility is also discussed beginning on page 47.

Medicaid Contract Disclosures

The department did not include the required language related to debarment and suspension in a contract for the Medicaid program.

The department is in the process of replacing its Medicaid Management Information System (MMIS). As part of the prior audit, we reviewed four contracts related to this effort. We identified one contract in which the required language related to debarment and suspension was not included as required by federal regulations. As a result, we made a recommendation to the department to establish and document internal controls to ensure all relevant contract disclosures and attachments are included in Medicaid contracts to comply with federal regulations.

The department did not concur with this recommendation and indicated the contractor was informed of the federal debarment requirements during the contracting process, but the related contract attachment was inadvertently excluded from the final contract. Department management provided the purchase order for the services which contained the suspension and debarment language. However, we did not consider this to be a certification by the entity because the purchase order is not signed by the entity.

The department provided us with multiple contract amendments made during the audit period pertaining to Medicaid, however, the department did not enter into any new contracts during the audit period. Since there were no new contracts, we were unable to verify the implementation status of this recommendation. We will continue to monitor this recommendation in future audits.

Foster Care Procurement for Services

The department has made efforts to contract for certain services frequently utilized as part of the Foster Care program. However, the definition of human services in state law continues to require clarification.

Our prior two audits recommended the department enter into contract agreements for certain services, as required by state procurement policies and federal regulations. Services in question include one-on-one supervision of youth, chemical dependency evaluations, urine analysis, and support services for children placed in the Foster Care program. The department indicated the support services for the audit period were limited to payments for day care services, pass-through of economic stimulus

payments, and reimbursements for medically necessary travel. We take no exception to these costs because they are associated with the foster family caring for the child placed in care.

For chemical dependency evaluations and urine analysis, the department represents it issued a statewide Request for Proposal (RFP) for substance abuse screening services, and only three vendors responded completely to the RFP. This resulted in the department issuing three non-exclusive contracts, as the vendors were unable to meet the statewide needs of the Foster Care program. The department indicated these services are widely available from many providers in communities across the state, and that court-ordered treatment plans require substance use screenings in other areas of the state, not only in the areas where vendors responded to the RFP. Additionally, since the individual transactions are less than \$5,000 and are purchased as separate and discrete transactions for specific clients in specific circumstances, the department believes no contract is required. Because the department must provide for such services throughout the state and has made efforts to contract for services where it is able, we make no further recommendation at this time.

The department continues to contend the services in question are exempt from formal contracting under the provision of human services per the exclusion in §18-4-123(18)(b), MCA. While we make no further recommendation to the department at this time, clarification in state law would benefit the department, the audit division, and the federal grantor agency.

Medicaid Provider Fraud

Surveillance Utilization Review Section (SURS) investigations were documented and retained during the audit period. However, no legislative changes or changes to department policy have been made.

Our prior audit recommended the department establish internal controls to ensure SURS investigations for Medicaid provider fraud are completely documented and retained. Based on our audit work, we did not identify any instances where SURS investigations were not completely documented or not retained. We also recommended the department implement changes in department policy and seek changes in legislation to remove restrictions on provider overpayment audits. Current state law limits the records that can be requested for overpayment audits and places time constraints on when an audit must be completed. Based on discussion with department staff, no changes to department policy or changes in legislation have been made. Therefore, we concluded the department has partially implemented the recommendation. Full implementation would require legislative change and the 2021 Legislative Session made no amendments to state law, so we make no further recommendation at this time. We will follow up during the next audit regarding the status of legislative changes.

Suspending Participation in Medicaid

The department does not have a system to receive notification of individuals convicted of Medicaid fraud and does not suspend individuals convicted of Medicaid fraud from receiving benefits as required by state law.

Our prior audit recommended the department develop a system to receive notification of individuals convicted of Medicaid fraud. Additionally, we recommended the department suspend individuals

convicted of Medicaid fraud from receiving benefits as required by state law. Per discussion with department staff, a bill was drafted in the 2021 Legislative Session that included information related to preventing fraud in public assistance programs. However, the bill died in committee. There is still no mechanism in place to notify the department of convictions.

Additionally, we recommended the department suspend individuals convicted of Medicaid fraud from receiving benefits as required by state law. However, without a system in place to receive notification of Medicaid fraud convictions, the department was unable to demonstrate compliance with this requirement.

Based on the information discussed above, the department did not implement the recommendation. At this time, we make no further recommendation to the department. However, we will continue to monitor this recommendation in future audits and consider any legislative changes and subsequent changes in process related to suspending individuals convicted of Medicaid fraud.

Excess Federal Cash

The department continued to carry excess federal cash during the audit period for the department's Supplemental Nutrition Program for Women, Infants, and Children (WIC) and Child Support Enforcement (CSE) programs.

For both the WIC and CSE programs, our prior audit recommended the department comply with federal regulations to minimize the time between the drawdown and disbursement of cash. We analyzed cash balances for both programs and noted improvements in management of excess cash during the current audit period. However, there were still instances of noncompliance noted in each program.

For WIC, we noted two instances of excess federal cash for time periods between seven and 13 days. The balance of excess cash ranged from approximately \$1,300 to \$196,000. These instances were at calendar year-end and fiscal year-end and could be due to timing or delays due to holidays and the accounting records closing at year-end.

For CSE, we noted 36 instances of excess cash for time periods spanning between four and 11 days. The balance of excess cash ranged from approximately \$380 to \$500,000. While there were still a large number of instances of excess cash in the current audit period, the time periods over which excess cash was held were shorter this audit than in the last. Receipt of nonfederal cash in the form of child support payments contributes to the department's ability to manage CSE cash balances. By the time a federal draw is received, the department has generally collected additional nonfederal funds which creates a positive cash balance. The department is aware of and is working to address the timing issue.

The department continues to make improvements in managing excess cash for WIC and CSE. We do not make any additional recommendations at this time and will continue to monitor cash management for these programs in future audits.

Significant Negative Cash

The department continued to operate its Foster Care program from negative cash positions for most of the audit period.

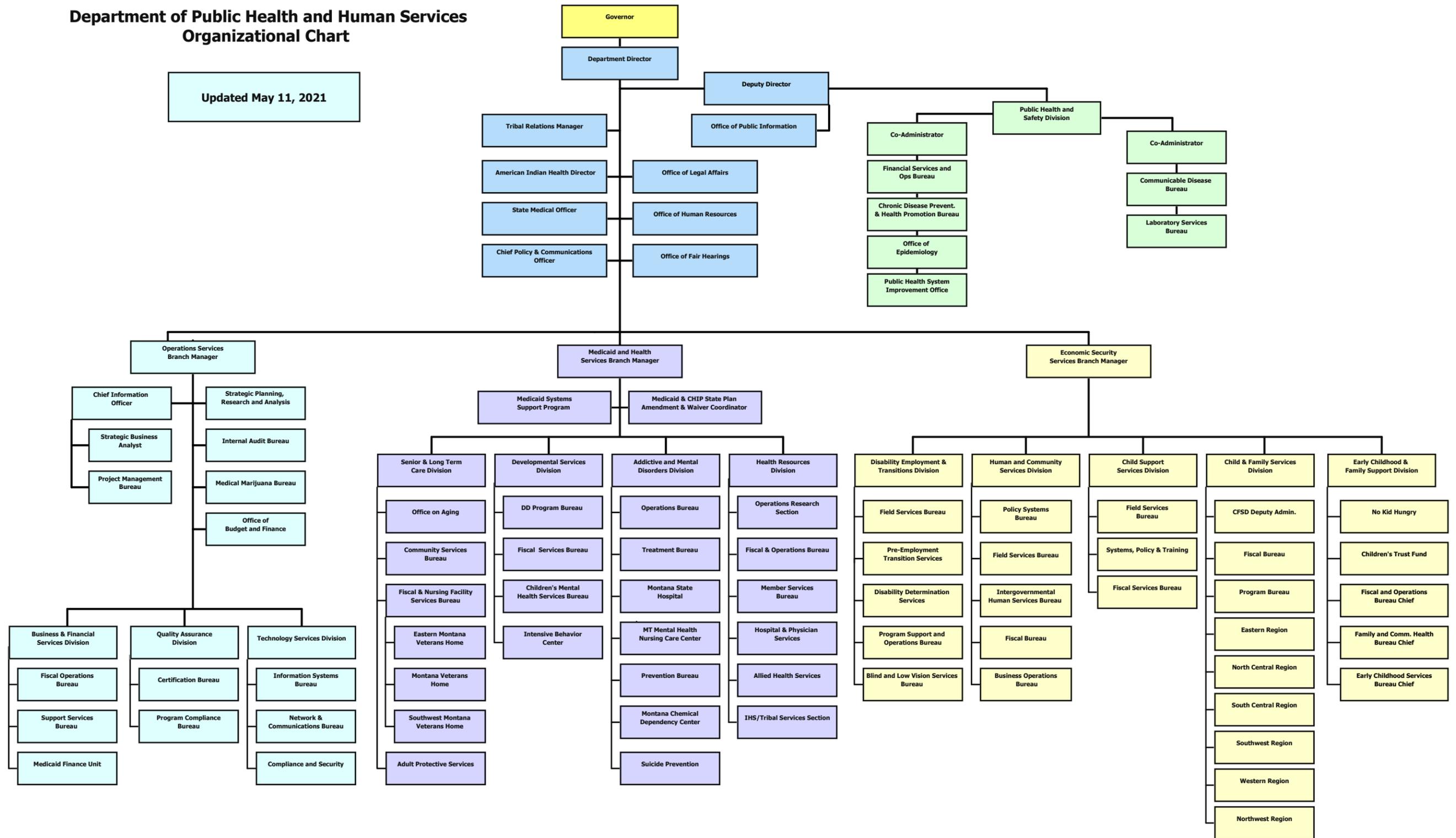
In the prior audit we identified significant instances for both the Foster Care and Child Care Development Fund (CCDF) programs where cash balances were negative by more than \$20,000. By operating from a negative cash positions, the department has effectively subsidized federal program costs using funds from the state's treasury.

Based on our analysis from the current audit, we did not identify significant instances of negative cash for CCDF when considering the timing of federal draws. However, for Foster Care, we still identified significant instances of negative cash. This is discussed in further detail on page 40 (Inaccurate Estimate of Future Expenditures).

Figure 3
DPHHS Organizational Chart - May 2021

Department of Public Health and Human Services Organizational Chart

Updated May 11, 2021

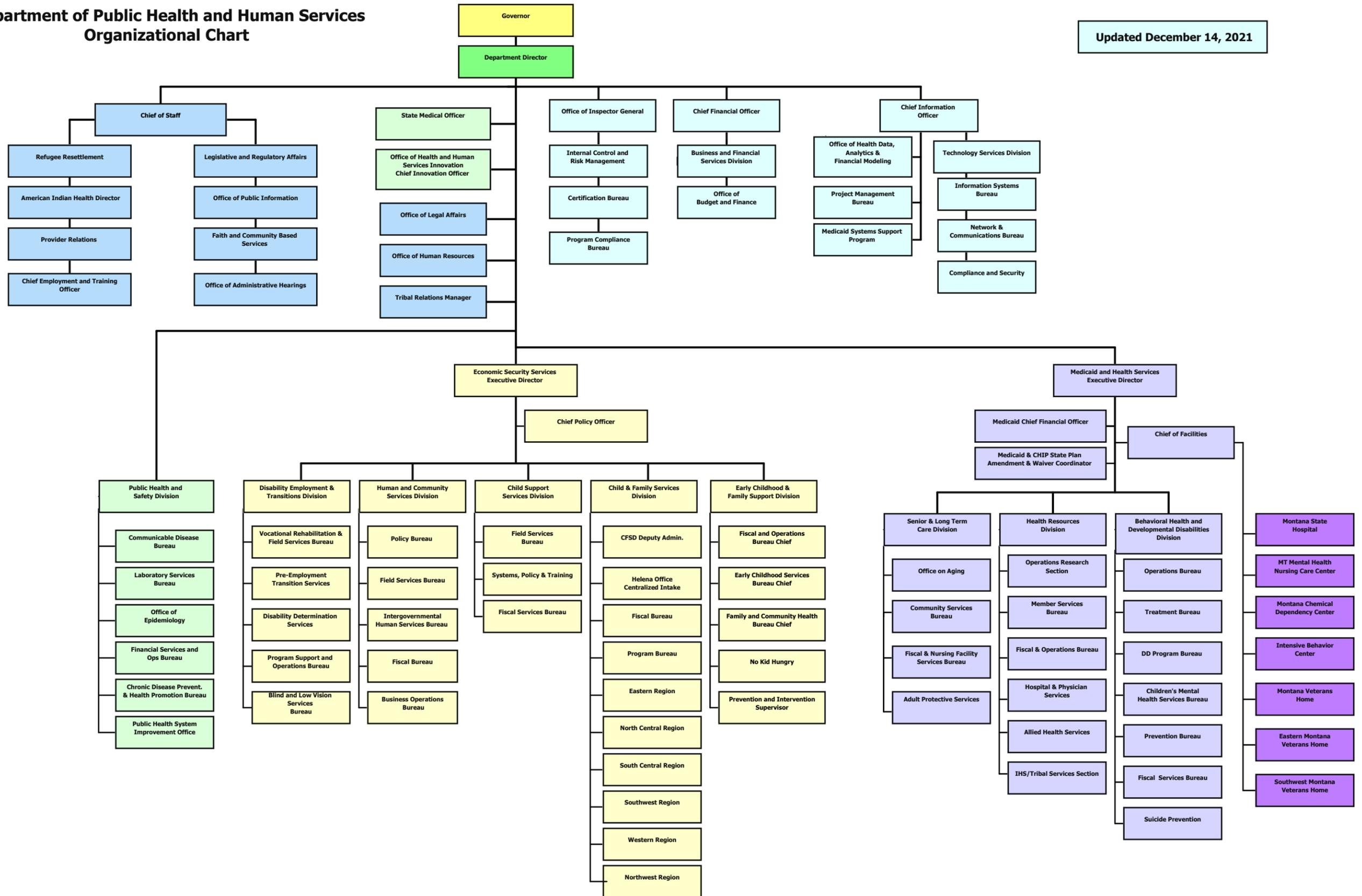


Source: Department of Public Health and Human Services.

Figure 4
DPHHS Organizational Chart - December 2021

Department of Public Health and Human Services Organizational Chart

Updated December 14, 2021



Source: Department of Public Health and Human Services.

Chapter II – Findings and Recommendations

The Department of Public Health and Human Services (department) spent approximately \$2.7 billion in fiscal year 2021, and \$2.2 billion in fiscal year 2020, in federal funds administering a wide spectrum of social service and health programs for the state of Montana.

Federal programs administered by the department include: Medicaid; Children’s Health Insurance Program (CHIP); Foster Care; Supplemental Nutrition Services Program (SNAP); Temporary Assistance for Needy Families (TANF); Child Care Development Fund (CCDF); Low-Income Home Energy Assistance Program (LIHEAP); Epidemiology and Laboratory Capacity for Infectious Diseases (ELC), Coronavirus Relief Fund (CRF), and Disaster Grants – Public Assistance (FEMA). Federal regulations require recipients of federal assistance to establish and maintain effective internal control to provide reasonable assurance the federal award is being administered in compliance with statutes, regulations, and the terms and conditions of the federal award. Internal controls are processes and procedures that provide management with reasonable assurance it will achieve its objectives related to compliance. All recommendations address improvements needed in the department’s internal controls for the federal programs it administers.

Medicaid and Children’s Health Insurance Programs Eligibility

As part of our testing of the Medicaid and CHIP programs, we completed testing over eligibility determinations. For Medicaid, we tested eligibility determinations for both Modified Adjusted Gross Income (MAGI) based and non-MAGI-based eligibility groups. Non-MAGI-based eligibility determinations apply to coverage groups including the aged, blind, and disabled. MAGI-based eligibility determinations apply to most coverage groups including individuals under age 65 in families with incomes below a certain Federal Poverty Level (FPL). The CHIP program provides services to uninsured, low-income children via the state’s plan and through expanded Medicaid benefits. CHIP program eligibility groups are also MAGI-based.

The Medicaid and CHIP programs each have a state plan which is approved by the federal Center for Medicare & Medicaid Services (CMS). The department also has a combined Medicaid and CHIP MAGI-based Eligibility Verification Plan which was filed with CMS. The department uses the Combined Healthcare Information and Montana Eligibility System (CHIMES) to determine eligibility for Medicaid and CHIP applicants. Application information is either electronically uploaded or manually entered into CHIMES, which determines client eligibility based on established business rules and eligibility requirements.

We performed a sample of Medicaid and CHIP eligibility determinations for individuals for fiscal years 2020 and 2021 which consisted of control and compliance testing. We considered sampling guidance, as published by the American Institute of Certified Public Accountants, in determining our sample sizes. Sampling guidance is different for each federal control testing and federal compliance testing.

- ◆ For control testing, the populations of Medicaid and CHIP eligibility determinations are combined as the eligibility process runs through the same internal control structure for both programs. As indicated in sampling guidance for federal controls, a minimum sample size of 60 is required for significant internal controls with high inherent risk. The federal government identified Medicaid as a high-risk program. Based on this guidance, we selected a sample

of 64 to test internal controls (48 Medicaid and 16 CHIP). For this testing we focused on whether the client information was verified as required and whether the department followed up on all information determined to be not reasonably compatible with information obtained through required data matches in a timely manner.

- ◆ For compliance testing, sampling guidance requires a minimum sample size of 60 for a high desired level of assurance over compliance. For the purposes of compliance testing, the Medicaid and CHIP programs are separately analyzed, so 60 sample items were selected from each Medicaid and CHIP for 120 total sample items. We focused on whether the department case files contained support for age, income, household, and residency for this testing and whether based on this information, the client met the eligibility requirements for their assigned eligibility category.

The following sections of the report summarize our recommendations to the department based on our eligibility testing.

Medicaid and CHIP Eligibility and Case File Support

The department does not consistently verify eligibility factors per the state's verification plan, fully document and support eligibility decisions in case files, and place individuals in the correct eligibility categories for Medicaid and CHIP.

Federal regulations for both the Medicaid and CHIP programs require using multiple criteria, including household income, when determining eligibility. Additionally, federal regulations require the department include facts to support their eligibility decisions in each individual's case record. Department personnel enter the necessary data for eligibility determinations into an individual's case file in the CHIMES system. This data is used to determine the client's eligibility for the department's various eligibility categories based on factors including age, household composition, residency, and income. The department's verification plan details how and when each piece of eligibility criteria needs to be verified.

CHIMES interfaces with various electronic data sources to verify information. CHIMES flags discrepancies between the interfaces and self-attested information, and the state's verification plan requires follow-up on the discrepancies. As part of our sample testing, we identified multiple instances where:

- ◆ Verifications were not completed or followed up on as required;
- ◆ Case files did not fully support the information used or the department's decisions in eligibility determinations.

As a result, we determined the department's internal controls were insufficient to comply with federal regulations for both the Medicaid and CHIP programs.

The types of issues we identified in our testing are described below, followed by Figure 5 and Figure 6 summarizing these types by case.

- ◆ Instances where eligibility information was not verified or discrepancies were not followed up on timely as required by the verification plan.

- ◆ Income used in eligibility determinations was not fully supported in the case file. Evidence in the case file was not sufficient to support the income used in the eligibility determination. As a result, we could not verify whether the income was correct.
- ◆ Income used in determining eligibility was incorrect per support in the case file.
- ◆ Residency and/or household composition is not supported in the case file.
- ◆ Eligibility criteria used in the determination was incorrect, but the eligibility category was correct.
- ◆ Eligibility criteria used in the determination was incorrect and as a result, the eligibility category was incorrect.
- ◆ The case file was fully supported, but the department’s eligibility determination was incorrect.
- ◆ The case file was not fully supported and as a result the department’s eligibility determination was incorrect.

Figure 5
Medicaid Eligibility Issues in Tested Cases

Medicaid Eligibility Issues							
Types of Issues as described above							
	Case #1	#2	#3	#4	#5	#6	#7
Eligibility information was not verified or discrepancies were not followed up on promptly					✗	✗	✗
Income used in eligibility determinations was not fully supported	✗	✗				✗	✗
Income used in determining eligibility was incorrect			✗				
Residency and/or household composition is not supported							
Eligibility criteria used was incorrect, but eligibility category was correct							
Eligibility criteria used was incorrect making the eligibility category incorrect			✗				
Case file was fully supported, but department's eligibility determination was incorrect				✗			
Case file was not fully supported making department's eligibility determination incorrect							✗

Source: Compiled by the Legislative Audit Division.

Figure 6
CHIP Eligibility Issues in Tested Cases

CHIP Eligibility Issues												
	Types of Issues as described above											
	Case #1	#2	#3	#4	#5	#6	#7	#8	#9	#10	#11	#12
Eligibility information was not verified or discrepancies were not followed up on promptly						X						
Income used in eligibility determinations was not fully supported		X		X			X	X	X			
Income used in determining eligibility was incorrect	X		X			X					X	X
Residency and/or household composition is not supported	X		X								X	
Eligibility criteria used was incorrect, but eligibility category was correct												X
Eligibility criteria used was incorrect making the eligibility category incorrect	X		X		X	X					X	
Case file was fully supported, but department's eligibility determination was incorrect										X		
Case file was not fully supported making department's eligibility determination incorrect							X					

Source: Compiled by the Legislative Audit Division.

Eligibility Issues

We discussed each of the case files and the results of our testing with the department during the audit. Based on those discussions, the department agrees there are issues with 11 of the cases summarized in Figures 5 and 6. For these cases, our audit procedures and conversations with department personnel indicate the errors resulted from human error in the determination process. For the other cases, including those where we determined verification did not occur or case files did not contain appropriate support, the department does not agree. In some cases, the department was able to find support or explain why an eligibility decision was made and in some instances added additional documentation to the case file. While we considered this additional information, because this information was not sufficiently documented or supported in the case at the time of determination, we concluded the case file was not supported.

Based on the issues identified above, there were ten cases (three Medicaid and seven CHIP) in which the eligibility determination or eligibility category was incorrect. In some cases, while the individual was placed in the wrong category, both categories were in the same federal program, so there are no related questioned costs. There were two cases identified where individuals were eligible, but placed into a category in the wrong federal program, resulting in the application of the wrong federal match percentage. Known questioned costs for these cases totaled \$34,517 and \$10,019 for Medicaid and CHIP, respectively. There was one CHIP case identified where the individual was not eligible for any CHIP or Medicaid eligibility category. Known questioned costs for this case totaled \$1,483 in federal CHIP funds. Overall, federal questioned costs for the full population of both Medicaid and CHIP

programs is likely to exceed the known costs discussed above. For all issues identified in both programs, known or likely questioned costs exceed the \$25,000 threshold for federal reporting.

In addition to the case specific issues discussed above, we also identified instances where eligibility-related processes were inconsistently applied across applicants. We identified the following types of inconsistencies:

Income:

- ◆ Income support can be provided by applicants in weekly or biweekly form. This income is then multiplied by a factor to estimate monthly income per the department's manual. While the department manual discusses the need to factor income, it does not specify how this should be done. We noted several instances where different factors were used to determine monthly income. For example, when projecting biweekly pay period incomes for a month, some calculations used a factor of 2.0 and others used 2.15. While differences between methods may not be large, if an applicant's income was close to an eligibility category's threshold, different determinations could be made using different factors.
- ◆ In some cases, applicants provide multiple pay stubs to support their income. The department's manual is not clear in how many pay stubs should be used. We identified calculations in which the case workers used all provided pay stubs in determining income, while others used only the most recent pay stub.
- ◆ Reported overtime or weekend wages were not treated consistently. In some cases, the amounts were included with normal wages, while in others they were considered separately.

Transitional Coverage:

- ◆ In certain situations, the department may provide transitional coverage to parents and children for up to six months following an Affordable Care Act (ACA) Medicaid case closure. We identified instances involving similar circumstances where the application of transitional coverage for children in CHIP categories was used differently. For example, in one case while the adult moved to transitional coverage, the children were reauthorized in a CHIP category. In a similar case, the entire household was moved to transitional coverage even though the children were still eligible for a CHIP category.

The department believes the specific facts of individual cases explain different treatments between cases and different treatments would not cause errors in eligibility determinations. While we did not identify errors in eligibility determinations related to inconsistencies in income calculations or transitional coverage, cases with income close to a category income threshold could result in income calculations that result in different eligibility determinations.

Summary

Based on the errors identified in our sample work, the department's internal controls are not sufficient to ensure compliance with federal regulations related to Medicaid and CHIP eligibility. Our sample work also identified instances of federal noncompliance related to case file support and eligibility determinations. Additionally, the department is at risk of not making uniform eligibility decisions and potentially placing individuals in wrong eligibility categories without consistent application of the eligibility determination process. Additional information related to changes in our approach to Medicaid and CHIP eligibility testing from the prior audit can be found in Chapter III of the report starting on page 47.

RECOMMENDATION #1

We recommend the Department of Public Health and Human Services revise its policies and procedures for Medicaid and Children's Health Insurance Program and provide training to case workers to:

- A. Ensure eligibility criteria and decisions are fully documented and supported by the case file.
 - B. Follow up on inconsistencies and make changes to case files as required by the department's verification plan.
 - C. Comply with federal regulations and state plan requirements by placing only eligible clients into correct eligibility categories.
 - D. Improve guidance to ensure consistent calculation of the household income used to determine eligibility.
 - E. Consistently apply the transitional period for children enrolled in the Children's Health Insurance Program.
-

CHIP Aged-Out Individuals

The department does not consistently ensure individuals are removed from CHIP once they turn 19 and age out of the program.

The CHIP program provides medical coverage to eligible children under 19 years old. Per federal regulations, once a child turns 19, they are no longer eligible for the program and must be removed. The department's system, CHIMES, is designed to auto-close CHIP programs at the end of the month the individual turns 19. The system creates a task for a case worker to complete a review to determine if the individual is eligible for Medicaid programs. However, if the case has another open task in CHIMES, the auto-close process cannot be completed. In these situations, a separate task is created for a case worker to manually close the case.

From our sample of 60 individuals enrolled in CHIP, we identified two instances where individuals aged out, but they were not properly removed from the program when they turned 19. For these instances, the individuals aged out in 2017, but remained in the CHIP program during the audit period. For these cases, the department acknowledges CHIMES had open tasks requiring a manual close out. Per department personnel, the department had a significant backlog of case tasks to complete, so the close outs did not happen timely. Department personnel represented the benefits claims processing system for CHIP also has additional controls in place to ensure claims are not paid under these eligibility categories if the individual is aged out. We confirmed there were no benefits paid out for these two cases during the audit period. However, for one case, claims were paid for the individual prior to the audit period, but after the individual aged-out.

Through our sample testing, we identified four additional individuals who aged out of the program during the COVID-19 public health emergency. These individuals were enrolled in Healthy Montana Kids (HMK) Plus Expansion, which is a CHIP-funded category that receives Medicaid benefits coverage. During the public health emergency, the department accepted an enhanced federal match for benefits payments. In order to receive the enhanced federal match, the federal government prohibited removing Medicaid coverage from individuals who had coverage at the start of the public health emergency. Since these cases were receiving Medicaid coverage, the department was prohibited from removing the individuals from the program.

Under the public health emergency requirements, the department could evaluate aged-out individuals for a Medicaid program and transition them to continue coverage, but they were not required to transition individuals. Since the end of the audit period, the department has completed some administrative reviews of specific cases and moved eligible individuals to adult Medicaid programs. As a result of the public health emergency requirements, we did not take issue with these four cases. Once the public health emergency ends, the department will have to evaluate all aged-out individuals to determine if they are eligible for a Medicaid program. If the individuals are not eligible for Medicaid, the department will have to remove individuals from the CHIP program.

RECOMMENDATION #2

We recommend the Department of Public Health and Human Services:

- A. *Enhance internal controls to ensure compliance with federal regulations related to individuals who have aged out of Children's Health Insurance Program funded programs.*
 - B. *Comply with federal regulations by removing individuals from Children's Health Insurance Program funded programs who have turned 19.*
-

Medicaid and CHIP Renewal Process

The department's eligibility redetermination processes for Medicaid and CHIP programs can be improved.

Once individuals are enrolled in Medicaid and CHIP programs, they have a 12-month continuous eligibility period. A renewal process is completed at the end of this period, and eligibility is redetermined. For eligibility categories under the Affordable Care Act (ACA), the redetermination is an automated process within CHIMES. The redetermination is still processed through CHIMES for all other programs, but is done manually by a department caseworker.

As part of reviewing eligibility determinations, we also evaluated whether required eligibility renewals and redeterminations occurred during the audit period. As discussed on page 4 of the report, the department suspended the renewal process during the COVID-19 public health emergency under

multiple waivers. We considered this in evaluating whether redeterminations were done timely. While we did not identify any timeliness issues during the audit period, we did identify some overall system issues with the eligibility redetermination process. These issues are discussed in more detail below:

- ◆ For the automatic renewal process in CHIMES, we identified instances where the eligibility redetermination did not include all income types. Overall, the CHIMES renewal process includes data matches for state wage information and unemployment benefits, but does not consider other income types including self-employment income or unearned income, such as pension or rental income. We also identified instances where only the individual's income was used in the redetermination instead of the household's income, which should be used for eligibility determinations. The department represented this issue has since been fixed in the CHIMES system.
- ◆ For automatic renewals, we identified instances where the system indicated the automatic renewal failed or there were incompatibilities identified with electronic data matches, yet the case was renewed without explanation or documentation in the case file.
- ◆ The manual renewal process allows renewals to be completed without the system recalculating eligibility based on updated income unless a case worker manually selects the option to recalculate in the system. The income information is pulled forward from previous eligibility determinations in these situations.

For automatic renewals, the design of the renewal process in CHIMES creates a risk that the incorrect income amount is used in redetermining eligibility at renewal. Without proper documentation of decisions made during the renewal process, the department is at risk of noncompliance with federal regulations requiring case files to include facts to support eligibility determinations. For manual renewals, there is a risk income will not be recalculated as part of the renewal process, resulting in incorrect eligibility determinations.

The department agrees with the manual renewal income recalculation issue. They represented they will implement improvements to the renewal process, ensuring recalculation of income does not rely on case workers selection in CHIMES. While the department does not agree with the auto renewal issues resulting in errors in eligibility determinations, they made some changes to the renewal process in CHIMES and indicated more improvements will be made following the public health emergency.

RECOMMENDATION #3

We recommend the Department of Public Health and Human Services enhance internal controls for Medicaid and the Children's Health Insurance Program to ensure annual redeterminations are completed accurately, using up-to-date information, and case files are fully supported as required by federal regulations.

Subrecipient Monitoring

Of the ten federal awards tested as part of our audit, we reviewed subaward activities for six. When subgranting federal funds, the department must identify the award and communicate applicable

requirements to subrecipients, evaluate each subrecipient's risk of noncompliance, and monitor the activities of the subrecipient. The following four sections discuss how the department can improve compliance with federal subrecipient monitoring requirements.

Required Contract Disclosures

Federal regulations require the department to inform subrecipients of specific federal award information, and include that information in the subrecipient agreement. When information is not available, the department must provide the best information available to describe the federal award and the subaward. If any data elements change, they must be specified in subsequent subaward modifications. Required contract disclosures include, but are not limited to:

- ◆ Subrecipient name and subrecipient's unique entity identifier,
- ◆ Federal award identification number,
- ◆ Date the state's federal award was signed by the federal awarding agency,
- ◆ Subaward start and end dates,
- ◆ Amount of federal funds obligated to the subrecipient with the current agreement,
- ◆ Total amount of federal funds obligated to the subrecipient including the current agreement,
- ◆ Applicable indirect cost rates for the federal award,
- ◆ Assistance Listings Number (formerly known as Catalog for Federal Domestic Assistance number) and title,
- ◆ Federal awarding agency,
- ◆ Department name and contact information,
- ◆ Federal award project description for use in Federal Funding Accountability and Transparency Act (FFATA) reporting,
- ◆ Permission for department officials and auditors to have access to the subrecipient's records, and
- ◆ Terms and conditions concerning the closeout of the award.

The department has not complied with federal regulations regarding required subrecipient disclosures, as discussed below. Because required contract information is used to complete FFATA reporting, omitted, incomplete and inaccurate contract disclosures put the department at risk for inaccurate federal reporting. Additionally, without providing subrecipients with the required federal award information, there is an increased risk of subrecipient noncompliance with federal requirements.

Foster Care

The department controls did not detect or correct omissions in subrecipient agreements for the Foster Care program, resulting in noncompliance with federal regulations.

Subrecipients for the department's Foster Care program include tribal governments and institutions of higher education. In response to our prior audit recommendations, in the fall of 2019 the department

sent memos to tribes disclosing what is required by the federal government, and subsequently signed amended contracts containing what the department believed to be the required subrecipient disclosures. The department also renewed or amended agreements with two institutions of higher education.

Amended tribal agreements included a list of disclosures, but not all the disclosures were included correctly. We identified inaccuracies or omissions including the federal award date, the name of the federal awarding agency, the assistance listing number, the amount of federal funds obligated by the current agreement, and the cumulative amount of federal funds obligated to the subrecipient.

The department executed a new contract with a university in June 2020 and included most contract disclosures. However, the department omitted the federal award identification number, name of the federal awarding agency, and amount made available under the federal award from the university agreement. Additionally, the department omitted nearly all contract disclosures from its September 2020 contract amendment with a college. The original college contract was also missing the disclosures, as reported in our prior audit.

Department staff indicated they included vague information in the contract disclosures because certain information was not available at the time of the subaward. Additionally, department staff indicated the Foster Care program is an entitlement program, and as such, the department does not always know the actual grant number from which they will compensate the subrecipient. While we agree certain specific information may be unavailable at the time of the award, the department can improve the accuracy and content of its subrecipient contract disclosures. Additionally, the department can use subsequent subaward modifications to notify the subrecipient when data elements change.

Temporary Assistance For Needy Families

Department controls did not prevent or detect and correct the missing required subaward disclosures for the 24 subaward agreements for the Temporary Assistance for Needy Families (TANF) program during the audit period.

The department contracts with 12 subrecipient entities, called Pathways Providers, to manage the cases of the clients who are eligible for TANF and need assistance to achieve household stability of their finances. We reviewed the 24 agreements for the audit period and identified all subrecipient agreements contained incorrect information or information was missing. Specific errors included incorrect funding source, federal award date, and subaward period of performance start and end dates. Agreements also omitted the name of the federal awarding agency. The department represents it sent contract amendments to its Pathways Providers in August 2021, adding the missing information and correcting previously incorrect information. However, the contract amendment communication occurred after the end of our audit period and did not change the issue identified by our audit.

Department internal controls were insufficient to identify the omitted or inaccurate information. Although the department's contract template includes a placeholder for the required contract disclosures, the department did not properly modify this section in the signed contract agreements.

Epidemiology and Laboratory Capacity

The department did not establish internal controls to ensure subrecipient agreements include required disclosures, resulting in omissions in Epidemiology Laboratory Capacity for Infectious Diseases (ELC) subrecipient agreements.

Before the CARES Act, the department incurred approximately \$3 million in federal expenditures annually for the ELC award. When federal funding increased exponentially in response to the COVID-19 public health emergency, the department amended existing subaward agreements with various county governments to better position the state in responding to the pandemic. We reviewed six of the department's 27 subrecipient agreements for the ELC award and identified missing required subrecipient contract disclosures in all six agreements. Based on information from department staff, this noncompliance is pervasive in all subrecipient agreements for the ELC award.

Per our review of the department's county master contract agreement and task order amendment templates, the required contract disclosure prompt is included in the master contract agreement template. However, the templates are unclear as to when the disclosures are required. Additionally, based on discussion with department personnel, training is needed to ensure program and fiscal staff are aware of subrecipient contract disclosure requirements.

Coronavirus Relief Fund

Internal controls did not ensure the department provided subrecipients of the Coronavirus Relief Fund (CRF) programs administered by the department with all of the required information to identify their subaward.

During the audit, we reviewed eight of the department's CRF programs. Of the eight, four of the programs made grants to subrecipients. These four programs made subgrants totaling approximately \$132 million in fiscal years 2020 and 2021, to approximately 2,400 subrecipients. These subrecipients consisted of local and tribal health departments, social services nonprofit organizations, behavioral health providers, school districts, and licensed childcare programs. Based on our review, multiple required disclosures were missing, including the subrecipient's unique entity identifier, federal award identification number, the total amount of federal funds committed to the subrecipient, and the name of the federal awarding agency. The CRF program is complete and the department has expended all of its funds.

Per the department, internal controls were not centralized when the funding was awarded to the department resulting in missing disclosures. Additionally, due to this and the speed the department was expected to implement multiple programs, some upfront communication with subrecipients was missed.

Summary

Complete and accurate subrecipient contract disclosures are a widespread issue for the department. Three different department divisions administer the three federal programs discussed above.

Department-wide training for all contract officers will assist the department in complying with federal regulations. In addition, not providing the subrecipient with the required federal award information increases the risk of subrecipient noncompliance with federal requirements.

RECOMMENDATION #4

We recommend the Department of Public Health and Human Services:

- A. *Provide training to staff regarding federal requirements for agreements with subrecipients.*
 - B. *Establish and document internal controls to ensure required subrecipient disclosures are included in Foster Care, Temporary Assistance for Needy Families, Epidemiology and Laboratory Capacity for Infectious Diseases, and new federal program subrecipient agreements prior to signature.*
 - C. *Ensure the required subrecipient disclosures are included correctly in Foster Care, Temporary Assistance for Needy Families, Epidemiology and Laboratory Capacity for Infectious Disease, and new federal program subrecipient agreements and contract amendments, as required by federal regulations.*
 - D. *Modify its Master Agreement and Task Order Contract Amendment templates for county government agreements to make it clear the federal contract disclosures are required for Epidemiology and Laboratory Capacity for Infectious Diseases subrecipient agreements.*
-

ELC Post-Award Monitoring Requirements

Department procedures did not include post-award monitoring of subrecipients for the federal ELC award, and has not complied with the requirements.

Federal regulations require the department to evaluate each subrecipient's risk of noncompliance with federal statutes, regulations, and terms and conditions of the award to determine the appropriate subrecipient monitoring. Federal regulations also require the department to monitor the activities of its subrecipients to ensure the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and terms and conditions of the subaward, and subaward performance goals are achieved. To properly monitor subrecipients, the department must review subrecipient financial and performance reports, following up on all deficiencies identified by external audits and on-site monitoring reviews, and issue management decisions for applicable audit findings.

As previously discussed, in response to increased federal funding for the ELC program, the department amended existing subaward agreements with various county governments to better position the state in responding to the pandemic, resulting in subaward agreements with 27 county governments. The department did not provide evidence of post-award monitoring for any of the six county subaward agreements included in our sample. This applies to all county subaward agreements based on discussion with the department. While the department indicates it is in contact with subrecipients, monitoring has not been documented.

RECOMMENDATION #5

We recommend the Department of Public Health and Human Services:

- A. *Establish and document internal controls for the federal Epidemiology and Laboratory Capacity for Infectious Diseases to ensure subrecipients use funds for authorized purposes, comply with federal statutes, regulations, and terms and conditions of the subaward agreement, and performance goals are achieved, as required by federal regulations.*
 - B. *Conduct monitoring of subrecipients of the federal Epidemiology and Laboratory Capacity for Infectious Diseases award, as required by federal regulations.*
-

Missing Grant Applications

The department did not maintain records of some approved grant applications for the Child Care Development Fund (CCDF).

We completed a sample of subrecipients for the CCDF. Of the 45 grantees we tested, the department could not provide the grant application for five subrecipients in fiscal year 2020. Per department staff, the grant applications were misplaced during the department's move to a new location. Since the department could not provide grant applications, we are unable to see evidence of approval prior to payment. The department could not demonstrate compliance with federal regulations to maintain effective internal controls.

We completed additional testing over the corresponding payments and do not question the validity of payments made to the subrecipients. All of the payment amounts were consistent with other subrecipients and all subrecipients were licensed providers and completed the necessary certification. However, we could not determine whether the grant application was approved.

RECOMMENDATION #6

We recommend the Department of Public Health and Human Services enhance internal controls to ensure records of grant applications are tracked and maintained.

Subrecipient Classification

The department misclassified certain agreements as contractor, rather than subrecipient, agreements and has therefore not complied with federal subrecipient monitoring requirements.

Federal regulations outline the characteristics of subrecipients and contractors. Subrecipient characteristics include the use of federal funds to carry out the federal program for a public purpose, as opposed to contractor characteristics of providing goods or services for the benefit of the pass-through entity.

As part of our audit, we reviewed payments from the ELC program to entities the department classified as subrecipients and contractors. In reviewing the underlying agreements, we identified the following situations where entities were misclassified as contractors rather than as subrecipients.

- ◆ The department contracts with a university to maintain full-time equivalent (FTE) positions to assist the department in increasing public health system ability to respond to antibiotic resistant threats.
- ◆ The department entered into agreements with three Montana hospitals. The agreements were to dedicate FTE positions to increasing the statewide laboratory capacity in response to the COVID-19 public health emergency.

Both the university and the hospital agreements are established to help position the state to better respond to infectious disease and not to provide services directly to the department. As such, these should be classified as subrecipient rather than contractor agreements.

Department procedures did not include formal consideration of subrecipient or contractor classification for university and hospital agreements at the time the agreements were established. By misclassifying the agreements with the university and the three hospitals, the department has not complied with federal requirements for subrecipients, such as providing federal award information to the entity, assessing risk for the entity, and conducting post-award monitoring of the entity. Misclassification also increases the risk that use of funds will not fully align with the purpose of the federal program.

RECOMMENDATION #7

We recommend the Department of Public Health and Human Services:

- A. *Establish internal control review procedures to document consideration of contractor or subrecipient classification at the time of entering into contract agreements for the Epidemiology and Laboratory Capacity for Infectious Diseases federal award.*
 - B. *Properly classify agreements as subrecipient or contractor relationships for the Epidemiology and Laboratory Capacity for Infectious Diseases federal award, as required by federal regulations.*
-

Allowable Costs for Federal Awards

Individual federal awards include specific purposes or uses of federal funds. Additionally, overarching federal regulations specify costs must be adequately documented to be allowable under the federal award. In our audit, we considered costs adequately documented when the cost was supported with evidence the goods or services were received and when we were able to verify the amount of reimbursement was appropriate based on that support. When reimbursement was for salaries, we considered costs supported when time sheets or detailed payroll reports were included in the documentation package. Without adequate supporting documentation, the department is unable to demonstrate compliance with requirements in federal regulation. Additionally, for payments which lack adequate support, the department may have incurred costs for unallowable activities under the federal award. For the CRF, costs are considered allowable if they are necessary due to the COVID-19 public health emergency. The following three sections discuss how the department can improve compliance with federal allowable costs requirements. Except Quarantine Isolation overpayments, the department did not seek reimbursement.

Foster Care Subawards

The department continued to make payments to subrecipients without first obtaining and reviewing detailed supporting documentation.

The department maintains Foster Care subrecipient agreements with the seven tribes located within the state and two colleges/universities (colleges). Federal funds are provided to these entities to either help administer the Foster Care program, provide stipends to college students studying social work, or to provide training to department staff. In addition to the overarching federal regulations described above, to qualify as allowable costs all training activities and costs must be included in the department's training plan and the grant to the college must be for the purpose of training current or future personnel for the Foster Care program. Our prior audit recommended the department enhance internal controls to retain, review, and approve detailed support for college and tribal invoices prior to payment, and that the department reimburse these entities only for activities allowed by federal regulations for the program.

In our sample of 14 invoices submitted by tribes or colleges, we identified nine instances where supporting documentation did not exist or supporting documentation was not detailed enough to determine whether the costs were allowable. Of the 14 invoices tested, five were related to training costs. Due to lack of supporting documentation submitted by the colleges, we were unable to determine whether these training costs were specified in the department's training plan. Observations of inadequate documentation include:

- ◆ Support for one college payment for \$59,124 was a budget to actual report by expenditure category which itemized approximately \$13,500 for payroll and fringe benefit costs, \$600 for supplies, \$16,000 for subscriptions, \$20,000 for stipends, and \$8,000 for indirect expenses. We were unable to determine whether payroll costs were for proper individuals or for correct amounts as no timecards or detailed payroll reports were available to compare to the college contract. Additionally, supply, subscription and stipend cost information were not supported with receipts or details to indicate details for purchases or the names of the stipend recipients.

As such, we could not determine whether costs incurred by the college were authorized under the contract and allowable for reimbursement with federal funds.

- ◆ Tribal invoices were often supported only with a standardized billing invoice which outlines personnel positions under the contract, the individual salaries including fringe benefits of the personnel, and operating expenditures. When the tribe provided no other support, we could not verify whether tribes actually incurred the expenditures outlined on the invoice.

For instances where a general ledger expense listing is provided, the department believes its controls for review of the summary by each program and fiscal staff for allowability and sufficiency of evidence are effective controls for subrecipient payment activities. For tribal reimbursements, the department created a standardized billing form on which tribes list positions under the contract, the salary amount and fringe benefits, and total operating costs incurred. The department believes the completed standardized billing form information is sufficient because this information can be compared to the contract. We disagree with the department's position regarding adequate supporting documentation and effectiveness of the department's review of the documentation. Reasons for our position include instances where:

- ◆ Documentation for college invoices included a general ledger report which listed total payments for various cost categories and a monthly expenditures listing, and limited additional details about costs. Compensation and benefits totaling more than \$1,026,200 lacked support to show individual staff being claimed. Support for travel costs of over \$41,000 included college employee names but lacked detail to indicate the purpose for the travel. Additionally, supply costs totaling \$34,600 were not supported by itemized receipts. Without more detailed documentation, the department can neither be sure the salaries or travel costs were incurred by college staff employed under the contract nor that supplies purchased were reasonable and necessary for administering the program.
- ◆ A tribe incorrectly completed the standardized billing form which resulted in the department overpaying the tribe. In this case, the tribe did supply the department with detailed wage reports for each employee. Salary amounts listed for two of the tribal employees represented the total gross salary plus the employer and employee payroll deductions, even though a portion of the cost were unassociated with the contract. The department did not identify and correct these errors in its review.
- ◆ Salaries on the standardized billing form listed over \$110,000 in salary costs incurred when a tribe's general ledger print out showed approximately \$93,000 in salary costs. The department's review of the invoice did not identify the discrepancy and the tribe was overpaid. To properly identify which of the 25 tribal employee salaries were incorrect, the department would need detailed gross salary information provided to them.

Total costs in our sample are summarized in Table 2 below.

Subrecipient Type	Wages Unsupported	Operation Expenses Unsupported	Indirect Costs Unsupported	Total
Tribes	\$47,657	\$828	\$12,464	\$60,949
Colleges	\$1,465,513	\$476,041	N/A	\$1,941,554
Total	\$1,513,170	\$476,869	\$12,464	\$2,002,503

Source: Compiled by Legislative Audit Division from department records.

Because supporting documentation is not in sufficient detail, we question \$2,002,503 in costs for the Foster Care program. Based on overall level of activity, we estimate likely questioned costs as \$5.1 million, which represents projected errors in payments to Foster Care subrecipients for the period. By increasing the amount of documentation required as well as increasing the depth of the review and approval process, the department will be able to demonstrate its federal Foster Care costs are for allowable purposes.

Epidemiology and Laboratory Capacity

The department made payments to ELC subrecipients and contractors without first obtaining and reviewing detailed supporting information.

As part of our audit, we conducted samples of subrecipient and contractor payments for the ELC federal financial assistance program. Both samples identified instances where costs were not adequately documented, as further described below.

Subrecipient Payments – The department made payments to 27 county governments, classified as subrecipients of the ELC award, for the purpose of hiring an FTE position for an epidemiologist, county sanitarian, or disease intervention specialist. We sampled one payment to six of the subrecipients. Supporting documentation provided by the department was insufficient to determine whether the subrecipients incurred costs for purposes under the contract. Our observations include:

- ◆ Support for each of the payments was limited to an email from the county which simply specified whether the county had hired an FTE and did not contain detailed support such as payroll reports or time sheets.
- ◆ Contract payments were established at a set rate and were not based on costs incurred by the counties. We estimate one county was overpaid by \$28,970 from December 2020 to June 2021 based on salary and fringe benefit information provided by the county.
- ◆ Of the six payments in our sample, there were one each from December 2020, January 2021, and April 2021, with the remaining three payments taking place in June 2021. Because support provided by the department was in email form dated May or June 2021, we concluded the department made payments to counties without any documentation for the December, January, and April payments.

- ◆ One county indicated it was in the process of hiring for an FTE. The department disbursed funds to the county in June 2021. However, the subrecipient agreement was not signed until November 2021.

Contractor Payments – We sampled 37 journals, including 114 expenditure transactions. We identified the following payments to contractors where supporting documentation was not sufficient at the time of payment.

- ◆ The department maintains a contract with a university to maintain FTE to assist the department in increasing public health system ability to respond to antibiotic resistant threats. Supporting documentation did not include review of payroll reports or time sheets.
- ◆ Agreements with three Montana hospitals were to dedicate FTE to increasing statewide laboratory capacity in response to the COVID-19 public health emergency. While supporting documentation was provided at the end of the contract period, it was not obtained and reviewed prior to monthly contract payments to the hospitals.

Department procedures for contract payments did not include evaluation of adequacy of supporting documentation for federal awards. As a result, we question \$2,144,872 in costs incurred for the ELC program which includes all payments made to subrecipients and to the university.

Summary

Department procedures to review and approve contractor and subrecipient payments are inconsistent between its divisions and programs. Department procedures require modification to specify supporting documentation required as well as the depth of review required prior to authorizing payments to contractors and subrecipients. While the issue for the ELC program was first identified by this audit, this is a repeat finding for the Foster Care program.

RECOMMENDATION #8

We recommend the Department of Public Health and Human Services:

- Design and implement internal controls for its Foster Care and Epidemiology and Laboratory Capacity for Infectious Diseases federal awards to ensure adequate documentation for contractor and subrecipient payments is obtained, reviewed, and approved prior to payment.*
 - Reimburse Foster Care and Epidemiology and Laboratory Capacity for Infectious Diseases federal award contractors and subrecipients only for activities allowed by federal regulations.*
-

CRF Quarantine Isolation Benefits Payments

The department made two duplicate payments to facilities as part of their Quarantine Isolation benefits program using Coronavirus Relief Funds. Duplicate payments are unnecessary expenditures under the program.

The Quarantine Isolation program was one of 17 CRF programs the department administered. This program provided funds to facilities for any isolated or quarantined patients for days where the patient was actively positive or presumptively positive for Coronavirus. Providers included nursing homes, assisted living homes, and group homes.

We reviewed a total of 48 payments to 13 different facilities under this program during fiscal years 2020 and 2021. As part of this work, we identified two duplicate payments to facilities, one for \$28,410 and one for \$7,410. Federal requirements state CRF funds are allowable if the expenditures are incurred due to the COVID-19 public health emergency. We consider duplicate payments to facilities unnecessary under the federal program. As a result, we question \$35,820 in CRF costs.

The department is not in compliance with federal regulations as the duplicate payments were not an allowable use of the federal funds. Additionally, internal controls did not prevent these payments being issued. Department staff acknowledged the duplicate payments were made, and indicated they were subsequently identified during a reconciliation process. Per department personnel, the department was expected to implement multiple programs quickly and as a result, items were overlooked. The department is currently working with the entities to recover the overpayments.

RECOMMENDATION #9

We recommend the Department of Public Health and Human Services enhance internal controls to ensure duplicate payments are not made to recipients of federal funds.

Internal Control Documentation

As discussed on page 13, the department must establish and maintain effective internal control over federal programs to ensure compliance with federal regulations. Federal regulations require us to consider whether controls are properly designed and placed into operation, as well as to determine the operating effectiveness of the department's internal control over federal program requirements as part of our audit. In circumstances where the department has not maintained documentation of its internal controls, we are unable to evaluate them and conclude whether controls were sufficient. Our audit identified situations where the department relies on federal-level controls or information; however, these are not department-level internal controls. We do not consider these external controls part of the department's internal control structure as they are not managed by the department. The following sections include instances where internal controls were not adequately documented, or the department relied on controls of the federal government.

LIHEAP Reporting Controls

There are no documented department-level controls over the accuracy and completeness of information system generated extracts used to populate two required annual reports for the Low-Income Home Energy Assistance Program (LIHEAP) prior to submission to the federal government.

As part of our audit, we reviewed four different reports the department is required to submit to the federal government for LIHEAP. Of the four types of reports, two are generated using extracts from the department's case management information system. The case management system is used for intake of client and eligibility data as well as other uses for the federal program.

The department communicated they have controls in place to review the extracts out of the case management system as staff reviews reports for anomalies, comparing to prior year data. However, this process is not documented, and we were not able to test it. As a result, the department is in noncompliance with federal regulations.

Staff acknowledge this process could be better documented. Department staff also noted the information entered into the case management system is reviewed and monitored. Although the department does review and monitor this activity, these types of reviews do not address whether the system extracts are complete and accurate for reporting purposes. While the department has controls over the data entered into the system, the department lacks controls to ensure the data is being compiled completely and accurately in the system extracts. While we identified a lack of controls, we did not identify errors in our testing of the reports submitted to the federal government.

TANF ACF-199 Reporting Controls

There are no department-level controls over the accuracy and completeness of the ACF-199 TANF Data Report prior to its submission to the federal government.

The department uses its CHIMES system to determine Temporary Assistance for Needy Families (TANF) eligibility and benefit amounts. A contractor for the department uses the CHIMES system to submit the TANF ACF-199 report on the department's behalf. While the department represents it tested ACF-199 report functionality with CHIMES implementation in approximately 2012 and retests and validates that functionality with system enhancements, the department did not provide this evidence for our consideration. As such, there is no current system assurance available for report accuracy and completeness.

The department believes its up-front data collection procedures within the eligibility system as well as validation of the data file in the state/federal exchange as controls sufficient for its ACF-199 reports. Although the department does review and monitor this activity, these types of reviews do not address whether information extracted from the system is complete and accurate for reporting purposes. Without department-level controls to review the file for accuracy and completeness prior to submission, and in the absence of documentation of initial and ongoing testing of the CHIMES, the department is unable to demonstrate adequate internal control over its ACF-199 reports. Our audit did not identify

material noncompliance in the department's ACF-199 reports. However, internal controls over financial reporting require strengthening.

RECOMMENDATION #10

We recommend the Department of Public Health and Human Services:

- A. *Document internal controls over federal reporting data pulled from the department's case management system to ensure complete and accurate reporting for the Low-Income Home Energy Program.*
 - B. *Document department-level internal controls to ensure complete and accurate reporting for the Temporary Assistance for Needy Families ACF-199 reports.*
-

CCDF Tracking and Monitoring

The department did not have sufficient controls in place to ensure matching funds and maintenance of effort requirements were met, or to track remaining funds to ensure period of performance requirements would be met for grants, for the CCDF program.

The CCDF has multiple federal requirements related to fiscal management of grant funds, including the matching of federal funds, requirements to maintain a minimum level of state spending (referred to as maintenance of effort), earmarking of administrative funds, and the period in which the grant must be spent. The department lacked controls for the entire audit period to track matching funds, maintenance of effort, and period of performance requirements. For earmarking requirements, the department relied on a tool provided by the federal government. The federal government compiled this tool using quarterly financial reports from the department. Without verifying the information used in the tool is correct, the department cannot rely on this tool as an internal control.

The department is not in compliance with federal regulations as they did not establish and maintain internal controls to ensure compliance with multiple federal requirements. Without proper internal controls to track the fiscal management requirements applicable to the CCDF program, the department is at risk of unknowingly not complying with federal regulations governing the program. We completed additional testing over the matching funds, maintenance of effort, earmarking, and period of performance federal requirements of the program, and concluded the department met each requirement.

For the majority of the requirements, department personnel agree they did not have a control in place to track the requirements. Staff indicated the program had been through some turnover and changes because of a reorganization. While we were made aware of a tracking tool developed late in fiscal year 2021 for matching funds, maintenance of effort, and period of performance requirements, we did not see evidence of the tool consistently being used. For the earmarking requirements, the department relied on the tool completed by the federal government to ensure the requirements were met. The

federal government stopped providing this tool in fiscal year 2021, so the department recreated the tool for their own tracking purposes.

RECOMMENDATION #11

We recommend the Department of Public Health and Human Services establish and maintain internal controls to ensure compliance with federal matching funds, earmarking, maintenance of effort, and period of performance requirements for the Child Care Development Fund program.

Cost Allocation Errors

The department did not follow its federally approved plan to allocate costs among state and federal programs. Additionally, department internal controls did not identify these inconsistencies.

Federal regulations require the department, as a public assistance agency of the state, to develop, document, and implement a cost allocation plan, which is a process by which costs benefitting more than one program or activity are identified and allocated on a consistent and equitable basis. The cost allocation plan discusses both direct and indirect cost pools. Direct costs are recorded to a single project or program, while indirect costs are authorized for allocation to specified projects or programs. Regardless of classification as a direct or indirect cost, to be allowable under federal regulations, the federal program must directly benefit from the underlying activity.

During the period under audit, the department allocated costs under two different cost allocation plans. In total, the department allocated approximately \$164.8 million and \$172.6 million in costs for fiscal years 2020 and 2021, respectively. Monthly, there are approximately 130 cost pools for which the department allocates costs. In our sample of 61 cost pool allocations, we noted the following exceptions to compliance with the applicable cost allocation plan:

- ◆ The allocation method specified for the *Office of the Economic Security Services Branch Manager Indirect Cost Pool* lists the allocation method as FTE directly supervised by the Economic Services Branch Manager. The department erroneously allocated a portion of the pool costs using FTE which directly report to the Director's Office.
- ◆ We were unable to locate the *DET Contract Specialist Indirect Cost Pool* or the *MHPMP Maint and Operations 75 Indirect Cost Pool* in the department's Cost Allocation Plan (CAP), yet the department allocated costs associated with these pools during the audit period.
- ◆ We reviewed three allocations for the *Director's Office Indirect Cost Pool (DO Pool)*. Per the CAP, the department director supervises Chief Legal, Chief Personnel Officer, branch managers, and Public Health and Safety Division Administrator. The allocation method for the *DO Pool* is to benefit other indirect cost pools. During the audit, we noted the department did not allocate costs to the Public Health and Safety Division as required, which also resulted in over-allocations to other benefitting cost pools.

- ◆ We reviewed two allocations for the *Operations Services Branch Manager Indirect Cost Pool*. Per the CAP, costs for this pool allocate to the Technology Services Division, Business and Financial Services Division, and Quality Assurance Division administrator pools. During the audit, we noted one instance where the department did not allocate costs to the Chief Information Officer pool and one instance where the department allocated costs to the Project Management Bureau, bypassing the Chief Information Officer pool. The department's organizational chart also lists the Chief Information Officer, Strategic Planning, Research and Analysis, Internal Audit Bureau, Medical Marijuana Bureau, and Office of Budget and Finance as direct reports to the Operations Services Branch Manager. The department allocated costs to each of these functions even though the CAP does not specify them as receiving allocations.
- ◆ We reviewed three allocations to the *MPQHF QUI LOC Indirect Cost Pool*. While costs were allocated, the department did not provide supporting documentation for the review of the allocation method and the pool was not included in the CAP.

As a result of all sample errors, the department has not complied with its federally-approved cost allocation plans. The department's CAP is a 33-page text document. When updated, the department must submit a red-line strike out version along with a clean version of the proposed CAP. During each of the last two updates, the department's review of the changes did not identify and correct cost pools inadvertently deleted or were otherwise overlooked for inclusion.

In combination, the errors identified by our audit resulted in both over-allocations and under-allocations of indirect costs. Due to inherent complexities in stepping costs through each indirect cost pool, we did not quantify the errors for individual major federal programs. However, based on the amount of costs allocated to these programs, we project questioned costs for errors identified in our audit as well as other unidentified errors could accumulate to more than \$25,000 for each of the CHIP, Foster Care, Medicaid, and TANF programs. Total allocated costs for those programs are summarized in Table 3 below.

Table 3
Total Costs Allocated to Select Federal Programs for Fiscal Years 2020 and 2021
Federal Special Revenue Fund

Federal Program	FY2020	FY2021	Total
CHIP	\$4,162,131	\$3,317,393	\$7,479,524
Foster Care	\$4,454,339	\$3,894,529	\$8,348,868
Medicaid	\$53,114,531	\$55,539,639	\$108,654,170
TANF	\$5,764,828	\$5,908,191	\$11,673,019

Source: Compiled by Legislative Audit Division from department records.

Based on discussions with the department, additional changes to its allocation processes occurred in fall of 2021. Contrary to the requirements in federal regulation, the department submitted an updated CAP after placing the allocation changes into operation. As a result, cost allocation issues will likely be identified and reported in our next audit.

Due to ongoing issues, the department has contracted for a business process improvement study to analyze, review, and improve details of its cost allocation procedures and plan. The department intends to use the results of this study to assist with timely and accurate submission of CAP revisions.

RECOMMENDATION #12

We recommend the Department of Public Health and Human Services:

- A. *Enhance internal controls over cost allocation, including consideration of its in-depth review of its cost allocation procedures and plan.*
 - B. *Allocate costs as specified in the cost allocation plan, as required by federal regulations.*
 - C. *Implement changes to the cost allocation process only after receiving approval from, or submitting a plan revision, to the federal government.*
-

Federal Funding Accountability and Transparency Act (FFATA) Reports

Federal regulations require the department report under the Federal Funding Accountability and Transparency Act (FFATA) each action on subaward agreements that equals or exceeds \$30,000 in federal funds. Reports must be submitted to the FFATA Subaward Reporting System (FSRS), are due no later than the end of the month following the month in which the obligation was made, and must contain specific information about the obligating action, as outlined on the FSRS website. Department staff query for changes in its contracting system (commonly known as AWACS) by comparing the current month vendor obligation data to prior month vendor obligation data. The initial time the obligation accumulates to an amount exceeding \$30,000, or any increase in obligation amount thereafter, should be identified and reported as part of the department's procedures.

Of the ten federal awards tested as part of our audit, FFATA reporting was required for six. Our procedures included multiple samples to determine whether FFATA reports were submitted when required and whether information submitted was complete and accurate. We identified internal control deficiencies or noncompliance in four of the six programs. The following three sections discuss how the department can improve compliance with federal reporting requirements.

Foster Care

Foster Care contracts contained unsupported dollar amounts and inaccurate federal award identification numbers, resulting in errors in FFATA reporting.

As discussed in Recommendation #4 on page 24, the department's contracts with subrecipients for the Foster Care program did not include complete and accurate information. Because the contracts were incomplete and inaccurate, the contracting system that drives FFATA reporting also contained incomplete or inaccurate data.

In our FFATA sample, we reviewed six instances where changes in the federal obligation in the department's contracting system prompted the department to submit a Foster Care FFATA report. While the reports were submitted timely, we could not determine the accuracy of the obligation information and the federal award identification number included on the FFATA reports, as the underlying contracts did not contain accurate disclosure information.

Temporary Assistance for Needy Families

Department internal controls did not identify a change in contracting system information which caused necessary FFATA reports to be overlooked for the TANF program.

Our sample used the department's month-to-month comparison of contracting system data to identify required FFATA reports. We selected four instances where a change in TANF obligation amounts should have prompted a FFATA report to be submitted. We reviewed the underlying agreements for Pathways Providers who are considered subrecipients of federal TANF funds. Their subrecipient status supports the FFATA reports being necessary. However, the department did not complete and submit FFATA reports for these four TANF obligations.

Based on information provided by the department, personnel did not identify when one of the data fields in the contracting system was repurposed to account for federal expenditure activity rather than state general fund activity. When this change occurred, department internal controls were not updated to fully consider the implications for FFATA reporting. Because the department did not update the data field to indicate federal funds were involved, the department did not identify the need to prepare and submit FFATA reports for Pathways Provider obligations.

Epidemiology and Laboratory Capacity

Our sample testing for the ELC award identified multiple internal control and compliance issues related to FFATA reporting.

Our sample included 19 changes in the department's contracting system which required filing a FFATA report. We identified eight instances where the department did not submit reports and 11 cases where the department did not submit reports timely. For all reports submitted, we noted the department omitted the federal award identification and did not properly describe the purpose of the award in relation to the underlying subrecipient agreements.

For three of the required reports not submitted, there was a breakdown in communication between the department's Business and Financial Services Division (BFSD) staff and the program staff involved in the contracting processes. For these instances, BFSD staff indicated there was no Data Universal Numbering System (DUNS) number, yet program staff were able to quickly locate the DUNS number at our request. A DUNS number is a unique non-character number used to identify organizations and assists the federal government in tracking how federal money is allocated.

By not submitting the required FFATA reports, the department did not comply with federal reporting requirements for the ELC program. Without clear communication between department functions, the department risks continued FFATA reporting errors.

Summary

Our FFATA samples included the review of 44 instances where FFATA reports were required and FFATA transactions tested totaled over \$32 million. Table 4 summarizes the types of errors, number of reports, and associated dollar amounts for the six federal programs over which we conducted FFATA testing.

Table 4
Summary of FFATA Report Testing by Number of Reports and Associated Dollar Amounts

Federal Program	Number of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
CHIP	5	0	0	0	0
ELC	19	8	11	0	19
FEMA	3	0	0	0	0
Foster Care	6	0	0	6	6
LIHEAP	7	0	1	0	0
TANF	4	4	0	0	0
Total	44	12	12	6	25
Federal Program	Dollar Amount of Transactions Tested	Subaward Not Reported	Report Not Timely	Subaward Amount Incorrect	Subaward Missing Key Elements
CHIP	\$ 2,225,433	-	-	-	-
ELC	22,544,689	\$ 21,557,612	\$ 987,077	-	\$ 22,544,689
FEMA	4,607,959	-	-	-	-
Foster Care	511,509	-	-	\$ 511,509	511,509
LIHEAP	1,968,582	-	16,915	-	-
TANF	403,503	403,503	-	-	-
Total	\$ 32,261,675	\$ 21,961,115	\$ 1,003,992	\$ 511,509	\$ 23,056,198

Source: Compiled by Legislative Audit Division.

The error identified for the LIHEAP program was considered an anomaly; as such, we did not make a recommendation to the department for the LIHEAP program. However, FFATA reporting errors are not isolated to an individual federal program and the department needs to strengthen internal controls and compliance with the federal requirements.

RECOMMENDATION #13

We recommend the Department of Public Health and Human Services:

- A. *In conjunction with enhancements to Foster Care subrecipient award agreements discussed in Recommendation #4, enhance internal controls to ensure contracting system information is complete and accurate for Foster Care subawards.*
 - B. *Enhance internal controls to identify when changes in data fields in the contracting system impact its ability to properly identify changes in contract obligations for Federal Funding Accountability and Transparency Act reporting for the Temporary Assistance for Needy Families program.*
 - C. *Enhance internal controls to ensure the Business and Financial Services Division staff receives unique entity identification number information for Epidemiology and Laboratory Capacity for Infectious Diseases contracts to allow proper Federal Funding Accountability and Transparency Act reporting.*
 - D. *Submit accurate and complete Federal Funding Accountability and Transparency Act reports for the Foster Care, Temporary Assistance for Needy Families, and Epidemiology and Laboratory Capacity for Infectious Diseases programs, as required by federal regulations.*
-

Foster Care Reporting

The department did not identify or properly correct misreported information in its Foster Care CB-496 reports submitted during the audit period. Additionally, certain errors on these reports contributed to noncompliance with state law.

Various types of reports are required for individual federal programs. Required reports can include financial reports, performance reports, and special reports. Of the ten federal programs tested as part of our audit, we reviewed financial and special reporting requirements for seven.

The Foster Care CB-496 report is a quarterly financial report which includes federal expenditures information for the month ended as well as estimated expenditures for the upcoming quarter. Prior quarter expenditure adjustments must also be presented separately on the report. Based on our prior audit recommendation, the department enhanced internal control to ensure child support recoveries were reported on its CB-496 reports. However, our current audit identified additional internal control deficiencies and errors in CB-496 reporting.

We reviewed four CB-496 reports submitted for the audit period, and identified the following issues.

Incorrect Amounts and Errors in Corrections

Incorrect amounts were included in reports submitted for quarters ended September 2020 and December 2020. On those reports, the department incorrectly reported TANF cost recoveries rather than Foster Care cost recoveries. While the department identified the errors and made adjustments on its report for the quarter ended March 2021, the adjustments were not made correctly.

Department internal control procedures include identification and investigation of variances greater than 10 percent from the prior report for individual lines in the CB-496 reports. For the errors identified in our audit, the department's controls did not flag the variances for follow-up even though the percentage of change ranged from 32 percent to 1192 percent. Additionally, the department input adjustments backwards on subsequent reports and these errors were not identified in the department's review of the reports. Without effective internal control, the department continues to risk submitting incorrect CB-496 Foster Care reports.

Inaccurate Estimates of Future Expenditures

As mentioned above, the department must include estimated expenditures for the upcoming quarter on its CB-496 reports. For reports reviewed, the department reported estimated federal expenditures ranging from \$1.3 million to \$2.9 million. In contrast, for these same reports the department incurred between \$1.5 million and \$4.4 million in federal expenditures. On average, the department underestimated upcoming federal expenditures by over \$1 million on each report. Due to the department's under-estimation of upcoming quarterly expenditures, the department exhausts its federal grant allocation very early each quarter. As a result, the department cannot collect reimbursement for the federal portion of Foster Care costs until the federal government establishes a new allocation to the state. This resulted in the department's Foster Care federal special revenue fund carrying a negative cash balance for most of the audit period. We reported negative cash balances for the Foster Care program in our prior audit.

State law requires the department apply expenditures against non-general fund appropriations prior to using general fund appropriations. Because the department cannot collect timely reimbursement of federal Foster Care costs, the department has not complied with state law. This also means the state's General Fund is subsidizing federal program expenditures on an ongoing basis.

In our review, we noted seven instances ranging from five to 68 days where the Foster Care program had a negative cash balance of more than \$20,000. We also noted a negative cash of \$4.5 million at the end of fiscal year 2021. Department staff represent they were frequently unable to draw federal cash because funds were not available from the federal government for extended periods of time. Erroneous estimates on CB-496 reports for upcoming quarterly expenditures are contributing to the lack of available federal funding because this information is used by the federal government to establish funding authority for the state's Foster Care program.

RECOMMENDATION #14

We recommend the Department of Public Health and Human Services:

- A. *Enhance internal control to review Foster Care CB-496 reports for accuracy prior to submission.*
 - B. *Submit accurate information for cost recoveries and adjustments from prior periods on Foster Care CB-496 reports, as required by federal regulations.*
 - C. *Submit accurate upcoming quarterly federal expenditure information on Foster Care CB-496 reports to facilitate compliance with the use of non-general fund money first, as required by state law.*
-

Medicaid Confidentiality Agreement

The department did not have confidentiality agreements with contracted parties in place prior to sharing Medicaid National Correct Coding Initiative (NCCI) edit files as required by the NCCI Technical Guidance Manual.

The department is required to incorporate NCCI methodologies into the state Medicaid program. The NCCI methodologies are a set of claim edits created by the federal government to promote correct coding, prevent coding errors, and reduce improper payments related to Medicaid claims. The state contracts with an entity to perform claims processing for the Medicaid program. This contractor has a subcontractor responsible for implementing a portion of the NCCI edit check methodologies for the state's Medicaid claims. The department downloads the quarterly edit files from the federal government through a secure portal. The edit files are then sent directly to the subcontractor for use in implementing the NCCI edits.

The NCCI Technical Guidance Manual states the department may share the quarterly Medicaid NCCI edit file with any entity assisting with implementation of the state's Medicaid NCCI program in processing of claims only when appropriate confidentiality agreements are in place. The manual requires, at a minimum, certain elements be included in the confidentiality agreements.

The requirements established in the NCCI manual apply to all subcontractors with whom the department shares edit files. Since the department shares the confidential edit files directly with the subcontractor, a confidentiality agreement should be in place. The department was unaware of the requirement to have a confidentiality agreement. Additionally, the department believes their already existing confidentiality agreement with their contractor was sufficient to cover the NCCI processing. While the department has confidentiality agreements in place through their contractor, the specific elements required by the manual are not included.

By not having a confidentiality agreement in place, the department is not in compliance with federal requirements. Additionally, without the required confidentiality agreements, there is increased risk edit files may be used inappropriately by entities outside the department. Per department staff, they are currently in the process of completing a confidentiality agreement.

RECOMMENDATION #15

We recommend the Department of Public Health and Human Services:

- A. *Enhance internal controls to ensure compliance with Medicaid NCCI confidentiality agreement requirements.*
 - B. *Obtain a confidentiality agreement with any contracted party and their subcontractors prior to sharing Medicaid NCCI edit files per federal requirements.*
-

System and Organization Controls (SOC) Reports

The department contracts with multiple entities, considered service organizations, to provide services to the department as a user entity. Department service organizations include entities which process Electronic Benefits Transfers (EBT) and entities which process medical claims. A common method to ensure a service organization is achieving its obligations is to obtain an independent examination of the controls and processes of the service organization. The results of these examinations are accumulated into a System and Organization Controls (SOC) report. It is important for the department to obtain and review these reports. The following sections include federal compliance issues or internal control deficiencies related to obtaining and reviewing SOC reports.

SOC Report for SNAP and TANF Programs

The department obtained an examination by an independent auditor of the EBT service provider. The report covered three months of the two-year audit period, which is not sufficient for the department to demonstrate adequate internal control or compliance with certain SNAP and TANF program requirements.

Federal regulations require the department have an annual SOC-1 Type-2 examination of its EBT service organization. The department uses an EBT service provider for its SNAP federal program. The EBT service provider is responsible for settlement, or payment, to retailers that have agreed to accept EBT cards for food purchases. The same EBT service provider is involved in delivery of benefits for the TANF program. The following table depicts benefits distributions processed by the EBT service provider.

Historically, as noted by our prior audit, the department did not obtain a SOC-1 Type 2 report for the EBT service provider. On

January 21, 2020, the department instructed the EBT service provider to provide a SOC-1 Type 2 report. While the report for July 1, 2020 through September 30, 2020 was completed as quickly as possible, it does not provide any assurance over processing for fiscal year 2020, and provides limited assurances over fiscal year 2021 activity. Because the examination does not cover the entire period, the department did not comply with federal SNAP requirements.

Without assurance over the operating effectiveness and appropriate design and operation of controls at the service organization, the department cannot demonstrate adequate internal control over EBT payments for the audit period. We reviewed various department reconciliations completed for the period and noted no unresolved discrepancies. As such, we did not identify noncompliance with federal allowable cost requirements.

Table 5
Benefits Processed by EBT Service Provider

Federal Program	FY2020	FY2021
SNAP	\$161.8 million	\$229.3 million
TANF	\$16.2 million	\$11.5 million

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

RECOMMENDATION #16

We recommend the Department of Public Health and Human Services:

- A. *Establish and maintain adequate internal controls to receive and review assurance over the EBT service provider for the Supplemental Nutrition Services Program and the Temporary Assistance for Needy Families program.*
 - B. *Comply with federal regulations for the Supplemental Nutrition Services Program by requiring a yearly examination of EBT service provider transaction processing regarding the issuance, redemption, and settlement of program benefits and review the results.*
-

CHIP SOC Report

The department does not review the SOC report for the CHIP claims processing vendor. It is the department's responsibility to review the SOC report to confirm no additional work is necessary to ensure proper claims processing.

The department contracts with an entity for claims processing for provider payments on CHIP claims. The department obtains a SOC report for the contractor which provides assurance over data processing and internal controls. Department staff indicated they do not review the SOC reports for the claims processing vendor as the reports are not considered part of the standard reporting requirement of their contract with the vendor.

By not reviewing the SOC report, the department is at risk of being unaware of system issues affecting the services it receives from the claims processor. Additionally, the department is at risk of not implementing internal controls the claims processor presumes to exist at the department, related to proper claims processing. Generally, user controls include items such as controls over access and review or reconciliation of activity to ensure accuracy and reasonableness. We completed testing over the department's user controls and did not identify any deficiencies.

While the department acknowledges they do not review the SOC report, they represented they are very involved with the vendor and receive and review multiple other reports from the vendor which they believe provide assurance as to whether the claims processing system is working properly. The SOC reports obtained during the audit period did not identify significant issues over the vendor's processing of claims.

RECOMMENDATION #17

We recommend the Department of Public Health and Human Services review the SOC report for the Children's Health Insurance Program claims processor, and document this review, to ensure there are no issues with the services received from the vendor and to ensure all necessary department-level controls are implemented.

Child Care Provider Inspections

Department internal controls were not effective in ensuring childcare providers or facilities received inspections annually as required by federal regulation.

Federal regulations require the department to complete at least annual inspections of child care providers and facilities to ensure compliance with health and safety standards. The department conducts these inspections as part of administering the CCDF federal financial assistance program.

We completed a sample of invoices reimbursing childcare costs for participant families receiving CCDF assistance during the audit period. We also completed testing over the corresponding childcare providers as part of this sample. Out of 40 childcare centers tested, we identified four providers without a current inspection completed within 12 months. Under the COVID-19 public health emergency, the state obtained a waiver to temporarily suspend on-site monitoring and inspections. The four instances identified are not related to this waiver as the inspections were due prior to the public health emergency.

While the department has a process in place to track inspections of childcare providers, department internal controls were not sufficient to identify and prompt inspections to be completed timely. The department has not complied with federal regulations regarding annual inspection of childcare providers. As a result, the department is at risk of providing payment for childcare at providers who have not met all health and safety requirements.

RECOMMENDATION #18

We recommend the Department of Public Health and Human Services:

- A. *Enhance internal controls to complete annual inspections of childcare providers per federal requirements for the Child Care Development Fund program.*
 - B. *Comply with federal regulations by completing annual inspections of child care providers.*
-

Schedule of Expenditures of Federal Awards (SEFA)

The department recorded expenditures for Pandemic-Electronic Benefits Transfer (P-EBT) program as activity of another federal program on the state’s accounting records. This resulted in a \$27.6 million misclassification error in information the department submitted to OBPP for fiscal year 2021.

Federal regulations require the state’s SEFA to list individual federal programs and to provide the total expended for each individual federal program by its federally assigned Assistance Listing Number. The state’s SEFA is prepared annually by the Governor’s Office of Budget and Program Planning (OBPP) from information submitted from all state agencies administering federal programs. OBPP instructions for preparation of the fiscal year 2021 SEFA indicated each federal financial assistance program must be placed on one row of the worksheet submitted by the state agency.

The department’s standard procedures include using a separate account within the federal special revenue fund to record activity for each federal program it administers. However, the department’s Human and Community Services Division did not use a separate account within the state’s federal special revenue fund to record P-EBT benefits despite the fact that P-EBT has its own federal identification number. Instead, the P-EBT activity was commingled with the Supplemental Nutrition Assistance Program (SNAP) activity. The department’s Business and Financial Services Division (BFSD), the division responsible for preparing the SEFA spreadsheet, was not aware of the commingling of SNAP and P-EBT expenditures until we brought it to their attention. Commingling the activity from two federal programs caused BFSD to report the total on the department’s SEFA spreadsheet as SNAP activity and not to report any activity for P-EBT. This resulted in a \$27.6 million misclassification error in fiscal year 2021 SEFA information the department submitted to OBPP. To prevent commingling of federal award activity in the future, the department must enhance its internal controls. The misclassification error was corrected on the state’s SEFA included in the Statewide Audit report published in March 2022.

By including P-EBT expenditures with SNAP expenditures on the SEFA spreadsheet submitted to OBPP, the department did not follow OBPP instructions designed to comply with the federal requirements for SEFA reporting. Additionally, had the department incurred costs for P-EBT above the state’s major program threshold, this error could set the state up for not correctly identifying and auditing its major federal programs.

RECOMMENDATION #19

We recommend the Department of Public Health and Human Services:

- A. *Develop internal controls to ensure a separate account is used to record activity for each federal program administered by the department.*
- B. *Report information for each federal financial assistance program on a separate row of the department’s SEFA worksheet, as required by Office of Budget and Program Planning instructions.*

Chapter III – Changes in Audit Approach for Medicaid and CHIP Eligibility

Medicaid is a joint federal and state program that, together with CHIP, provides health coverage to individuals. Federal law requires the state to provide services to mandatory coverage groups including the aged, blind, disabled, and low-income parents and children. The Patient Protection and Affordable Care Act (ACA), enacted in 2010, allowed states to expand Medicaid to cover nearly all low-income Americans under age 65. In 2015, the legislature substantially changed Montana Medicaid, expanding Medicaid coverage as permitted under ACA. The state administers Medicaid to both ACA eligible and non-ACA (or traditional) eligible groups. ACA eligibility is based on Modified Adjusted Gross Income (MAGI), which considers taxable income, tax filing status, and family relationships to determine financial eligibility.

The following section discusses significant changes from the prior audit period related to Medicaid and CHIP eligibility determinations. Additionally, the section provides the most recent improper payment rates published by the federal government.

State Legislative Changes

The 2019 Montana Legislature passed revisions to state law which changed the department's requirements to verify eligibility and created additional eligibility requirements for the state's Medicaid expansion program. Significant changes related to eligibility are summarized below along with implementation information:

- ◆ Required the state to confirm an applicant's eligibility for the program before authorizing payment of benefits. The state implemented verification before enrollment in January 2020. Before this requirement, verification of several eligibility factors occurred after enrollment.
- ◆ Required the state to use income tax and wage income from the Department of Revenue to verify the income provided by applicants. The state requested income tax and wage income and started using this information to verify income in May 2020.
- ◆ Created additional eligibility requirements for individuals to be a Montana resident and provide proof of residency. Administrative rules were modified in May 2020 for this requirement, but implementation was delayed due to the COVID-19 public health emergency.
- ◆ Created community engagement requirements for coverage under the Medicaid expansion program. The requirements included 80 hours of community engagement activities which could include employment, education, community service opportunities, or workforce training activities. Administrative rules for this requirement were modified in January 2021, but implementation was delayed due to the COVID-19 public health emergency. Additionally, in 2021, the federal government communicated to the department that an extension of the Medicaid expansion waiver would not include work/community engagement requirements. As a result, the department will not implement the community engagement requirements in order to continue the Medicaid expansion program.

Compliance Supplement Changes

Federal Uniform Guidance requires us to use the Compliance Supplement issued by the Office of Management Budget (OMB) in determining the scope of our audit work. The 2019 Compliance supplement required us to redetermine and test eligibility for the Medicaid and CHIP programs. Based on these requirements, in the prior audit, we tested a sample of eligibility determinations and focused on eligibility factors including household size, income, and residency. For these factors, we used state tax data to affirm the reliability of information with the department's eligibility records as tax information aligns with the underlying basis of Modified Adjusted Gross Income (MAGI)-based eligibility determinations.

For the current audit we used the 2020 Compliance Supplement as the basis for our testing and considered 2021 Compliance Supplement changes. The 2020 Compliance Supplement stated, when “. . . information is not required to be available for the period under audit, auditors would not be expected to test verification other than the requirement to maintain information in the case file.” Additionally, “. . . for states that accept applicant self-attestation for certain factors of eligibility, such as household composition, and do not require further verification or documentation, the auditors are not expected to test beyond the requirements of the state.”

Based on changes in the compliance supplement, we designed our sample to focus only on the information available to the department and used in eligibility determinations during the audit period. This excluded tax data for a portion of the audit period until the department started using tax data in eligibility determinations as required by state law. We also conducted testing to determine whether the department maintained supported case files.

Questioned Costs

Our approach for determining Medicaid and CHIP eligibility-related questioned costs changed from the prior audit. As part of reporting the results of our testing in the prior audit, we reported questioned costs. We reported known questioned costs for any cases in which we identified the individual was placed into the incorrect eligibility group or the department's records did not demonstrate the information used to make the eligibility determination was factual. In addition to known costs, we projected likely federal questioned costs for both programs based on the volume of errors identified in MAGI-based eligibility groups.

In November 2020, the department received a response from the federal government regarding the questioned costs we reported in the prior audit report. Per this response, the federal government stated that “. . . financial recoveries based on eligibility errors can only be pursued when identified by programs operating under CMS' Payment Error Rate Measurement (PERM) program.” The response also indicated that CMS is limited in its ability to make financial recoveries related to most of the single audit eligibility findings. CMS will not pursue financial recoveries associated with questioned costs related to deficiencies identified by our prior audit. However, per the response, CMS will pursue the internal control deficiencies noted by the prior single audit.

As a result of this response, we changed our approach when evaluating errors identified in our eligibility testing. Since the federal government represented they will not make financial recoveries

based on eligibility errors, we did not project the results of our sample to the whole population to arrive at a specific amount of likely questioned costs. Alternatively, we summarized whether likely questioned costs exceed or did not exceed the federal reporting threshold of \$25,000. We also reported any known questioned costs specific to errors identified in our sample testing.

Payment Error Rate Measurement (PERM) Program

The federal PERM program is utilized to calculate national improper payments for Medicaid and CHIP. Annually, the PERM program measures the national Medicaid and CHIP improper rates and uses a 17-state, three-year rotation process. CMS reviews each state once every three years. The national improper payment rates are comprised of three components: fee-for-service, managed care, and eligibility. Montana does not have a managed care component. The federal PERM evaluations in the years 2014 through 2018 did not include eligibility. As a result, for 2014 and 2017 rates for Montana, the only applicable component was fee-for-service. Fee-for-services is a payment model where a doctor or other health care provider is paid a fee for each particular service rendered. In 2019, the PERM rate began to incorporate the eligibility component again.

The most recent PERM rates for Montana were released in November 2021 for the 2020 PERM cycle. PERM rates for 2014, 2017, and 2020 are summarized in the table below.

Table 6
National and Montana Fee-for-Service (FFS) and Eligibility PERM Rates
2014, 2017, and 2020 PERM Rates

FFS PERM Rate	Medicaid PERM Rates			CHIP PERM Rates		
	2014 Rate	2017 Rate	2020 Rate	2014 Rate	2017 Rate	2020 Rate
National FFS PERM Rate	10.59%	14.31%	13.90%	7.33%	12.55%	13.67%
Montana FFS PERM Rate	5.80%	*	4.60%	***	***	***
Eligibility PERM Rate	2014 Rate	2017 Rate	2020 Rate	2014 Rate	2017 Rate	2020 Rate
National Eligibility PERM Rate	**	**	16.62%	**	**	28.71%
Montana Eligibility PERM Rate	**	**	7.80%	**	**	***

SOURCE: Compiled by Legislative Audit Division from CMS reports.

* CMS did not release state-specific rates for 2017.
 ** Prior to 2019, eligibility was excluded from PERM evaluations.
 *** CMS did not release state-specific rates for CHIP.

The rates in the table above are an estimated improper payment rate calculated from a review of sampled claims. The sample is a stratified random sample of payments from each state's universe of payments for one reporting year. The PERM review contractor reviews all claims sampled to determine if each state's payment decisions and eligibility determinations complied with applicable federal regulations and state policies. The national rates are rolling dates as they consider rates from three data cycles. The improper payment rates are not a fraud rate, but simply an estimated measurement of payments made that did not meet statutory, regulatory, or administrative requirements.

At a high level, the PERM review process is similar to our approach in the prior audit, reviewing a sample of eligibility determinations for compliance with applicable federal regulations and state policies. As reported in the prior audit, we estimated a 5.8 percent error rate in eligibility for the department, which is lower than the most recent reported Montana PERM rate of 7.8 percent for Medicaid.

Summary

Legislative Audit Division and federal reviews of the department's activities continue to identify areas for improvement related to eligibility. Our testing over Medicaid and CHIP eligibility resulted in three recommendations to the department which can be found starting on page 13 of the report.

Independent Auditor's Report and Department Financial Schedules

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, 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, 2021, and 2020, 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, deferred outflows of resources, liabilities, and deferred inflows of resources.

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, 2021, and June 30, 2020, or changes in financial position for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, present fairly, in all material respects, the results of operations and changes in fund equity of the Department of Public Health and Human Services for each of the fiscal years ended June 30, 2021, and 2020, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 1 – Basis of Presentation, the financial schedule format was adopted by the Legislative Audit Committee. On June 16, 2020, the Committee approved a change in format to remove the presentation of revenue estimates from the Schedule of Total Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

In fiscal year 2020, the state adopted Governmental Accounting Standards Boards Statement No. 84 – Fiduciary Activities. Implementation of the standard necessitated elimination of the presentation of property held in trust, and its additions and reductions, on the Schedule of Changes in Fund Equity. 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 January 28, 2022, on our consideration of the Department of Public Health & Human Service's 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 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

January 28, 2022

PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2021

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Custodial Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2020	\$ (32,130,463)	\$ 44,792,799	\$ (20,458,314)	\$ 679,709	\$ (28,206)	\$ 2,900,824	\$ 35,993	\$ 272,271,519
ADDITIONS								
Budgeted Revenues & Transfers-In	14,747,658	87,220,683	2,728,825,047					86,232
Nonbudgeted Revenues & Transfers-In	53,837	9,614,174	513,999	1,198,758	329	26,162,813	30,443	36,927,882
Prior Year Revenues & Transfers-In Adjustments	(49,832)	(311,714)	(23,425,287)					(4,173)
Direct Entries to Fund Equity	481,695,398	179,740,522	15,236,656		2,462,666			
Total Additions	496,447,060	276,263,664	2,721,150,415	1,198,758	2,462,996	26,162,813	30,443	37,009,940
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	507,465,451	227,779,158	2,728,277,500		2,296,045			
Nonbudgeted Expenditures & Transfers-Out	24,936	10,381,414	121,693	1,204,118	(642)	27,140,943	29,528	8,916,647
Prior Year Expenditures & Transfers-Out Adjustments	(6,805,053)	(9,606,478)	(17,557,935)		147,839			
Total Reductions	500,685,333	228,554,095	2,710,841,258	1,204,118	2,443,242	27,140,943	29,528	8,916,647
FUND EQUITY: June 30, 2021	\$ (36,368,736)	\$ 92,502,369	\$ (10,149,157)	\$ 674,349	\$ (8,453)	\$ 1,922,695	\$ 36,908	\$ 300,364,812

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.

DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES
SCHEDULE OF CHANGES IN FUND EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Custodial Fund	Private Purpose Trust Fund	Permanent Fund
FUND EQUITY: July 1, 2019	\$ (44,678,846)	\$ 44,435,934	\$ (26,649,957)	\$ 4,457,264	\$ (476,688)	\$ 0	\$ 0	\$ 250,742,800
ADDITIONS								
Budgeted Revenues & Transfers-In	15,475,789	53,046,202	2,232,919,180					62,946
Nonbudgeted Revenues & Transfers-In	208,588	13,073,135	494,597	1,202,935		26,055,562	112,352	29,556,070
Prior Year Revenues & Transfers-In Adjustments	6,303	108,555	(46,339,854)	3,229,855				(1,763)
Direct Entries to Fund Equity	477,542,752	176,387,668	(5,581,713)		1,126,676	1,592,274	36,993	
Total Additions	493,233,431	242,615,561	2,181,492,211	4,432,790	1,126,676	27,647,836	149,344	29,617,252
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	497,424,872	225,606,806	2,221,402,607		677,670			
Nonbudgeted Expenditures & Transfers-Out	16,770	17,775,291	250,655	1,203,081	525	24,747,012	113,352	8,088,534
Prior Year Expenditures & Transfers-Out Adjustments	(16,756,594)	(1,123,401)	(46,352,694)	7,007,264				
Total Reductions	480,685,048	242,258,696	2,175,300,568	8,210,345	678,195	24,747,012	113,352	8,088,534
FUND EQUITY: June 30, 2020	\$ (32,130,463)	\$ 44,792,799	\$ (20,458,314)	\$ 679,709	\$ (28,206)	\$ 2,900,824	\$ 35,993	\$ 272,271,519

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, 2021

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Custodial Fund	Private Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits	\$ 95,706	\$ 2,513,881						\$	2,609,586
Charges for Services	13,849,350	15,448,083	0			23			29,297,433
Investment Earnings	967	52,787		\$ 154				\$	4,426,539
Fines and Forfeits		1,772,712	727,272						2,499,985
Monetary Settlements	126,729	40,948,171	6,077,423						78,972,799
Sale of Documents, Merchandise and Property	470	52,107							52,577
Rentals, Leases and Royalties	87	47,559							47,646
Contributions and Premiums	(273,814)	4,870,072							4,596,258
Grants, Contracts, and Donations	5	3,693,190	8,909						3,702,103
Transfers-in	892,089	21,185,226	237,507,367	1,198,605	329				261,600,143
Inception of Lease/Installment Contract	53,833	29,637	51,802						135,601
Federal Indirect Cost Recoveries		47,498	96,739,888						96,787,386
Miscellaneous	3,525	357,994	1,327,154			26,162,791	\$ 30,443		27,881,907
Federal	2,717	5,504,225	2,363,473,943						2,368,980,885
Total Revenues & Transfers-In	14,751,662	96,523,143	2,705,913,759	1,198,758	329	26,162,813	30,443	37,009,940	2,881,590,848
Less: Nonbudgeted Revenues & Transfers-In	53,837	9,614,174	513,999	1,198,758	329	26,162,813	30,443	36,927,882	74,502,235
Prior Year Revenues & Transfers-In Adjustments	(49,832)	(311,714)	(23,425,287)					(4,173)	(23,791,006)
Actual Budgeted Revenues & Transfers-In	14,747,658	87,220,683	2,728,825,047	0	0	0	0	86,232	2,830,879,619

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.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Debt Service Fund	Custodial Fund	Private Purpose Trust Fund	Permanent Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS								
Licenses and Permits	\$ 140,062	\$ 3,286,724						\$ 3,426,785
Taxes	600							600
Charges for Services	12,753,851	18,534,439	\$ 153					31,288,442
Investment Earnings	2,327	304,716		\$ (1,332,009)			\$ 19,192,898	18,167,933
Fines and Forfeits		489,644	899,986					1,389,630
Monetary Settlements	107,018	13,989,979	5,631,073				9,651,862	29,379,932
Sale of Documents, Merchandise and Property	485	83,657						84,142
Rentals, Leases and Royalties	39	49,659						49,698
Contributions and Premiums		5,214,806						5,214,806
Grants, Contracts, and Donations	2,457,264	14,352,103	13,000					14,365,103
Transfers-in	208,592	13,038,098	16,288,937	1,189,799			772,493	33,746,591
Inception of Lease/Installment Contract		78,460	246,926					533,978
Proceeds of Refunding Bonds				4,575,000				4,575,000
Federal Indirect Cost Recoveries		42,798	91,703,457					91,746,255
Miscellaneous	(1,953)	140,280	1,269,422		\$ 26,055,562	\$ 112,352		27,575,662
Federal	22,396	(3,377,470)	2,071,020,969					2,067,665,895
Total Revenues & Transfers-In	15,690,680	66,227,893	2,187,073,923	4,432,790	26,055,562	112,352	29,617,252	2,329,210,452
Less: Nonbudgeted Revenues & Transfers-In	208,588	13,073,135	494,597	1,202,935	26,055,562	112,352	29,556,070	70,703,239
Prior Year Revenues & Transfers-In Adjustments	6,303	108,555	(46,339,854)	3,229,855			(1,763)	(42,996,903)
Actual Budgeted Revenues & Transfers-In	15,475,789	53,046,202	2,232,919,180	0	0	0	62,946	2,301,504,117

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.

DEPARTMENT OF PUBLIC HEALTH & HUMAN SERVICES
 SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
 FOR THE FISCAL YEAR ENDED JUNE 30, 2020

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Addictive & Mental Disorders	Business & Financial Services	Child & Family Services	Child Support Enforcement	Developmental Services Division	Directors Office	Disability Employment & Transitions	Early Childhood & Family Support	Health Resources Division	Human & Community Services	Medicaid & Health Services Management	Operations Services Division	Public Health & Safety Division	Quality Assurance Division	Senior & Long Term Care Services	Technology Services Division	Total
Personal Services																	
Salaries	\$ 30,971,766	\$ 2,476,044	\$ 20,251,630	\$ 6,565,114	\$ 6,706,101	\$ 7,709,669	\$ 5,392,571	\$ 5,137,559	\$ 2,190,985	\$ 20,905,837	\$ 716,085	\$ 2,861,102	\$ 9,708,336	\$ 4,166,957	\$ 9,456,981	\$ 4,224,039	\$ 139,440,776
Employee Benefits	15,163,980	1,039,535	9,182,867	2,710,945	2,989,751	1,978,110	2,345,282	2,056,833	842,984	9,550,105	213,199	1,076,390	3,801,476	1,719,854	4,677,656	1,523,515	60,872,482
Total	46,135,746	3,515,579	29,434,497	9,276,059	9,695,852	9,687,779	7,737,853	7,194,393	3,033,970	30,455,942	929,284	3,937,492	13,509,812	5,886,811	14,134,637	5,747,554	200,313,258
Operating Expenses																	
Other Services	15,711,719	4,622,272	1,344,952	330,599	1,633,821	993,966	2,589,164	2,518,164	12,802,250	3,889,354	22,203,139	1,886,308	9,534,413	239,320	6,526,993	24,167,085	110,993,521
Supplies & Materials	3,730,198	48,122	549,935	68,118	142,833	10,259,091	221,010	1,050,270	18,287	797,248	631	43,985	10,158,222	35,501	1,398,985	2,820,157	31,342,591
Communications	113,130	1,408,382	486,074	244,794	30,354	105,837	239,970	99,638	5,845	106,111	2,309	84,223	999,121	61,975	64,043	4,992,496	9,044,302
Travel	237,611	1,287	664,361	29,887	45,723	24,559	109,073	340,284	9,194	183,636	7,238	46,660	347,158	92,853	20,449	2,397,575	2,397,575
Rent	2,167,947	1,955,158	3,258,127	754,195	310,373	113,689	910,351	544,474	(925)	2,339,221	7,999	193,147	37,290	368,935	480,803	348,376	13,788,440
Utilities	660,087	76	1,138	227,156	10,376	10,376	10,376	81,728	114,574	12,593	7,999	193,147	37,290	145	136,846	1,048,417	2,887,866
Repair & Maintenance	115,605	13,507	35,686	18,802	(133,563)	107,897	357,871	81,728	24,320,986	114,574	11,245	11,245	540,661	1,516	214,430	1,407,907	2,887,866
Other Expenses	6,787,919	(10,662,263)	9,268,864	26,987,252	3,316,119	(7,682,859)	952,829	3,446,014	12,269,492	(11,681,564)	(2,470,538)	3,908,572	3,908,572	(3,496)	7,705,465	(31,718,070)	34,744,722
Goods Purchased For Resale	68,787																68,787
Total	29,593,004	(2,613,458)	15,609,138	28,433,647	5,551,652	3,943,345	5,380,268	8,080,572	37,155,637	19,710,010	10,539,752	(204,970)	25,538,030	941,497	16,619,699	2,038,399	206,316,221
Equipment & Intangible Assets																	
Equipment	(520,900)							81,208		118,252			1,100,323		10,700		789,583
Capital leases - equipment	21,979	10,960	11,134	48,995		21,609	5,127	5,415	14,631	11,134			23,151	5,034	5,627		184,795
Total	(498,921)	10,960	11,134	48,995		21,609	5,127	86,623	14,631	129,386			1,123,474	5,034	16,327		974,379
Local Assistance																	
From State Sources	3,666,010																3,666,010
Total	3,666,010																3,666,010
Grants																	
From State Sources	1,305,254					182,500		1,275,435					3,767,770		6,054,145		12,585,104
From Federal Sources	10,513,190		9,361,239			10,250,884		31,058,753		9,083,073	526,387		8,495,799	555,284	10,113,893		89,958,503
From Other Sources													1,261,700				1,261,700
Grant To Governmental Entities													672,000				672,000
Total	11,818,444		9,361,239			10,433,384		32,334,188		9,083,073	526,387		14,197,270	555,284	16,168,038		104,477,307
Benefits & Claims																	
To Individuals	116,227,309		54,675,936		245,212,680	1,105,660	7,972,011	36,622,426	1,426,317,532	50,547,280	15,064		1,210,117		276,636,754		2,216,542,768
From Federal Sources							395	15,362,060		161,425,946			420				176,788,822
Other Financing Uses/Deduction	6,844,461																6,844,461
Total	123,071,770		54,675,936		245,212,680	1,105,660	7,972,406	51,984,486	1,426,317,532	211,973,226	15,064		1,210,537		276,636,754		2,400,176,051
Transfers-out																	
Fund transfers	1,798,299	7,724,926	1,291,888			126,265	1,561,010	43,000	641,148	2,739,136	2,793		352,750	3,545,459	2,458,007		22,284,680
Total	1,798,299	7,724,926	1,291,888			126,265	1,561,010	43,000	641,148	2,739,136	2,793		352,750	3,545,459	2,458,007		22,284,680
Debt Service																	
Bonds	1,356,612																1,356,612
Loans	257,182				37,932										67,161		362,275
Capital Leases	9,615	28,913	32,078	10,557	1,224	10,603	2,982	5,718	6,880	21,322		1,968	14,042	2,423	9,125	852	158,302
Installment Purchases	(279)	(3,066)															(3,345)
Total	1,623,130	25,846	32,078	10,557	39,156	10,603	2,982	5,718	6,880	21,322		1,968	14,042	2,423	76,286	852	1,873,844
Total Expenditures & Transfers-Out	\$ 217,207,481	\$ 8,663,853	\$ 110,415,909	\$ 37,769,257	\$ 260,499,341	\$ 25,328,645	\$ 22,659,644	\$ 99,728,978	\$ 1,467,169,798	\$ 274,112,095	\$ 12,013,280	\$ 3,734,490	\$ 55,945,915	\$ 10,936,509	\$ 326,109,748	\$ 7,786,805	\$ 2,940,081,749
EXPENDITURES & TRANSFERS-OUT BY FUND																	
General Fund	\$ 75,800,906	\$ 545,423	\$ 62,462,507	\$ 4,553,160	\$ 77,986,094	\$ 1,247,524	\$ 4,884,504	\$ 11,797,586	\$ 145,610,132	\$ 26,902,475	\$ 3,043,161	\$ (25,543)	\$ 3,549,324	\$ 2,212,840	\$ 59,619,674	\$ 495,283	\$ 480,685,048
State Special Revenue Fund	24,041,400	(2,666)	1,942,809	1,471,743	6,446,517	482,279	2,855,573	4,125,043	124,367,603	4,467,277	(1,080)	3,689,458	18,559,404	4,060,451	45,635,746	117,141	242,258,696
Federal Special Revenue Fund	107,588,554	396,171	45,829,169	12,681,519	175,837,865	23,598,842	14,919,568	83,763,350	1,196,871,455	242,742,343	8,971,200	70,576	33,837,186	4,663,218	216,721,275	6,808,277	2,175,300,568
Debt Service Fund	8,210,345																8,210,345
Capital Projects Fund			181,424	130,667												366,104	678,195
Custodial Fund	1,566,276			18,932,169	115,513										4,133,054		24,747,012
Private Purpose Trust Fund					113,352												113,352
Permanent Fund		7,724,926						43,000	320,608								8,088,534
Total Expenditures & Transfers-Out	217,207,481	8,663,853	110,415,909	37,769,257	260,499,341	25,328,645	22,659,644	99,728,978	1,467,169,798	274,112,095	12,013,280	3,734,490	55,945,915	10,936,509	326,109,748	7,786,805	2,940,081,749
Less: Nonbudgeted Expenditures & Transfers-Out	7,446,576	(3,850,697)	8,945,146	26,473,434	2,955,194	(7,391,535)	2,425,982	20,205,998	15,079,488	(11,698,294)	(2,428,071)	(2,428,071)	8,659,284	9,522,120	(31,492,709)	52,195,220	
Prior Year Expenditures & Transfers-Out Adjustments	4,349,239	89,830	(335,329)	12,770	(1,851,914)	300,132	914,909	(42,797,708)	19,787	(22,782)	3,898	(83,284)	(95,964)	(17,566,553)	(162,457)	(57,225,426)	
Actual Budgeted Expenditures & Transfers-Out	205,411,667	12,424,720	101,806,092	11,283,053	259,396,061	32,420,047	19,318,753	95,900,658	1,489,761,507	259,012,821	23,734,356	6,158,663	47,371,914	7,515,491	334,154,181	39,441,972	2,945,111,955
Budget Authority	233,512,203	13,334,233	105,597,684	11,370,584	284,584,269	39,158,613	29,831,455	119,263,024	1,595,215,579	290,271,002	28,448,441	7,543,011	111,199,548	8,504,840	351,455,748	80,935,975	3,310,226,208
Unspent Budget Authority	\$ 28,100,536	\$ 909,513	\$ 3,791,591	\$ 87,531	\$ 25,188,208	\$ 6,738,566	\$ 3,791,591	\$ 10,512,702	\$ 23,362,366	\$ 105,454,071	\$ 31,258,181	\$ 4,714,085	\$ 1,384,348	\$ 63,827,634	\$ 989,350	\$ 17,301,567	\$ 365,114,254
UNSPENT BUDGET AUTHORITY BY FUND																	
General Fund	\$ 8,454,229	\$ 101,360	\$ 2,135,														

Department of Public Health and Human Services

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2021

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 the state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects, Debt Service, and Permanent). In applying the modified accrual basis, the Department records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the Department incurs the related liability and it is measurable, except for 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 an accrual basis accounting for Fiduciary (Private-Purpose Trust and Custodial) fund categories. 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 the Following: 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. The Department uses general fund in each of the programs. General fund is used primarily to provide match for various federal programs including Medicaid, TANF, and IV-E. Additionally, general fund is used to support the Montana State Hospital and the Montana Mental Health Nursing Center.
- ◆ **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, tobacco 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 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 Epidemiology and Laboratory Capacity for Infectious Diseases, Substance Abuse Prevention and Treatment, Child Care Development Fund Grant programs, FEMA, Coronavirus Relief Fund, Provider Relief, and multiple Coronavirus Aid, Relief, and Economic Security Act (CARES) funding sources.
- ◆ **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 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 trust funds. The Department used 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 Fund, and the Tobacco Settlement activity in this fund.

Fiduciary Fund Category

- ◆ **Custodial Fund** – to account for resources of fiduciary activities held by the state in a custodial capacity which are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The external portion of investment pools that are not held in a trust should be reported in a separate external investment pool fund column, under the custodial fund classification. Custodial 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 department custodial funds include Child Support Clearing account, IBC Residential Accounts, CFA, Vet’s Home, and Montana State Hospital clearing accounts. These accounts are utilized for temporarily recording collections and fees.
- ◆ **Private Purpose Trust Fund** – to account for all fiduciary activities that are (a) not required to be reported in pension (and other employee benefit) trust funds or investment trust funds and (b) are held in a trust (or trust equivalent arrangement), where the principal and income benefit individuals, private organizations, or other governments. Department private-purpose trust funds include the Disability Determination Client Trust Fund.

2. New Accounting Guidance Implemented

For the year ended June 30, 2020, the State of Montana implemented GASB 84 – Fiduciary Activities. The objective of this Statement is to improve guidance regarding the identification of fiduciary

activities for accounting and financial reporting purposes and how those activities should be reported. The custodial fund included on the financial schedules is a result of implementation of GASB 84.

3. General Fund Equity Balance

The negative fund equity balance in 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 balances for each fiscal year ended June 30, 2020, and June 30, 2021.

4. Direct Entries to Fund Equity

The Department recorded \$477,542,752 and \$481,695,398 of direct entries to fund equity in the General fund during fiscal years 2020 and 2021 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 within individual funds shared by separate agencies.

Direct entries to fund equity in the State Special Revenue, Federal Special Revenue Fund, Capital Projects funds also include entries generated by Statewide Accounting, within individual funds shared by separate agencies. Direct entries to fund equity in the General, State Special and Federal Special Revenue funds also include correction of errors from previous periods that occurred at least two fiscal years prior. Direct entries to fund equity in the Private Purpose Trust during FY 2020 includes entries necessary to implement GASB Statement No. 84-Fiduciary Activities.

5. Nonbudgeted Activity

The departments cost allocation plan for fiscal year 2020 and 2021 allocates shared costs across the divisions. Recognition of these costs distributions results in expenditure abatements (negative amounts) in the "Other Expenses" operating expense account category of divisions that perform a significant number of shared services.

6. Unspent Budget Authority

There was significant unspent budget authority in both SFY 2020 and 2021. Much of this unspent authority is due to funding sources that received additional CARES and Coronavirus Response and Relief Supplemental Appropriations Act (CRRSA) appropriations. Some of the programs that contribute to the large amounts of unspent budget authority due to COVID-19 additional funding are as follows: Epidemiology and Lab Capacity (93.323); Medicaid (93.778); Supplemental Nutrition Assistance Program (SNAP); Temporary Assistance for Needy Families (TANF); Child Care and Development Funding (CCDF); as well as multiple other programs already established. These appropriations were continuing therefore any unspent authority is carried forward into the next year. The general fund had a large amount of unspent budget authority due to actual Medicaid benefit expenditures coming in less than budgeted.

7. Total Revenues & Transfers-In

The departments Total Revenues and Transferred-In amounts are as follows; \$2,187,073,923 and \$2,705,913,759 in revenues for Federal Special Revenue Funds in 2020 and 2021 respectively. The large increase in Federal funds from 2020 to 2021 is due to the amount of additional appropriation that was authorized to the Department to respond to the COVID-19 Pandemic crisis. Additional funding sources were granted from the Coronavirus Relief Funds (CRF), Federal Emergency Management Agency (FEMA), Provider Relief Fund (PRF), as well as multiple funding sources that are currently established within the department. There was an increase in Tobacco Settlement revenue from 2020 to 2021 which is reflected in both the State Special Revenue and the Permanent funds.

8. Expenditures

Operating expenditures increased nearly \$60 million in the fiscal year ending June 30, 2021, then that of 2020. Total expenditures overall increased by \$1.4 billion, and Benefits increased over \$300 million. In some instances, grant expenditures more than double between the two years. This is entirely due to the Departments role in responding to the COVID-19 Pandemic crisis. The Department incurred expenditures in the CRF funding source that were not typical to Department regular operational expenses. For example, the department was allocated funding to assure that Social Services Non-Profit entities were awarded funding through an application process to help them respond to the public health crisis. The Department had additional expenditures outside of normal business operations for facilities to mitigate COVID-19.

9. Prior Year Activity

Prior Year Expenditures and Transfers-Out adjustments include the cancellation of unused expenditure liabilities estimated for the Department benefit programs. Prior Year Revenues and Transfer-In Adjustments are made yearly to assure that program year revenue and expenditures are balanced at year-end.

10. Agency Reorganization

Effective in the beginning of SFY 2020, the Early Childhood and Family Support Division was created as a newly formed division in the agency. This division was formed combining programs from the Public Health and Safety Division; No kid Hungry Program; Children's Trust Fund; programs from Human and Community Services Division; and the Child Care & Development Fund. This change was critical for the department to have a central location to meet the needs to coordinate services and resources to this vulnerable population in Montana.

11. Subsequent Event

On November 17, 2021, a jury awarded \$16,652,538 in damages against the Department in S.W v. State of Montana, No. DDV 13-813 (Mont. Eighth Jud. Dist. Cascade County), and judgment was subsequently entered on the award. The case was filed in 2013 by the guardian of a minor against the Department. Plaintiff contends that the Department was negligent per se as a matter of law involving a child abuse incident caused by the birth father's girlfriend that permanently harmed SW. The perpetrator was subsequently convicted and imprisoned for thirty years. On February 18, 2020, the District Court judge issued an order granting partial summary judgment to plaintiff, determining that

DPHHS had a duty to SW, that a violation of the statutory and administrative regulations constitutes negligence per se, that DPHHS is not entitled to immunity, and that the statutory damages cap in Mont. Code Ann. § 2-9-108(1) does not apply. A jury trial, limited to the issue of damages, was held on November 16-17, 2021, which resulted in the referenced damages award, for loss of future earning capacity, past personal care assistance, future care costs, mental and emotional suffering, and impairment of capacity to pursue an established course of life. The Department has appealed the matter to the Montana Supreme Court and expects a decision sometime in late 2022. As the matter is on appeal, the Department is unable to assess the degree of probability of an unfavorable outcome or the associated loss until the Montana Supreme Court issues a decision.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
William Soller

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, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Public Health & Human Services for each of the fiscal years ended June 30, 2021, and 2020, and the related notes to the financial schedules, and have issued our report thereon dated January 28, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the department's internal control over financial reporting as a basis for designing 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 the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's 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 statements 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 the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. We did identify certain deficiencies in internal control, described below, that we consider to be material weaknesses.

- ◆ As described in Recommendation 16, the department does not have adequate internal controls for fiscal year 2020 to ensure transactions are processed in compliance with federal Supplemental Nutrition Assistance Program requirements.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's 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 of financial schedule results. 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

The department's response to the findings identified in our audit are described 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

January 28, 2022

DEPARTMENT OF PUBLIC
HEALTH AND HUMAN
SERVICES

DEPARTMENT RESPONSE



Department of Public Health and Human Services

Director's Office ♦ PO Box 4210 ♦ Helena, MT 59620 ♦ (406) 444-5622 ♦ Fax: (406) 444-1970
<https://dphhs.mt.gov>

Greg Gianforte, Governor

Adam Meier, Director

May 17, 2022

Angus Maciver
 Legislative Auditor
 Office of the Legislative Auditor
 State Capitol, Room 160
 Helena, Montana 59620-1705

RECEIVED

MAY 17 2022

LEGISLATIVE AUDIT DIV.

Re: Financial Compliance Audit 21-14

Dear Mr. Maciver:

The Department of Public Health and Human Services has reviewed the *Financial Compliance Audit (21-14)* 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 revise its policies and procedures for Medicaid and Children's Health Insurance Program and provide training to case workers to:

- A. Ensure eligibility criteria and decisions are fully documented and supported by the case file:
- B. Follow-up on inconsistencies and make changes to case files as required by the department's verification plan:
- C. Comply with federal regulations and state plan requirements by placing only eligible clients into correct eligibility categories.
- D. Improve guidance to ensure consistent calculation of the household income used to determine eligibility.
- E. Consistently apply the transitional period for children enrolled in the Children's Health Insurance program.

Response: While DPHHS agrees to implement the recommendation, it does dispute the level of deficiencies noted within the narrative of the audit report. The questioned costs identified by the audit team include costs associated with cases that, when applying federal standards and regulations in accordance with the agency eligibility verification plan, are eligible expenditures within the program. DPHHS identified actual improper payments for two individuals in the audit sample and have returned the federal share for claims associated with these individuals (\$2,836.59) in April 2022. The department agrees that policies, procedures, internal controls, and training can be strengthened to achieve the objectives of the recommendation, and therefore concurs.

Corrective Action: The Department is improving policies and procedures related to documenting eligibility determinations, case changes, calculating income and transitional coverage. *Planned Implementation Date: 09/30/2022*

Recommendation #2: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to ensure individuals are removed from CHIP-funded programs once they turn 19 in compliance with federal regulations
- B. Comply with federal regulations by removing individuals from CHIP-funded programs who have turned 19.

Response: Concur

Corrective Action: DPHHS has implemented internal controls to prevent enrollment of Healthy Montana Kids (HMK, CHIP) individuals beyond the month of their 19th birthday. The Medicaid program manager receives an *HMK turning 19* report from the HMK program officer every month. This report is provided to the health coverage unit to process. This process entails closing the HMK benefits for the child and sending a notice requesting information if the individual is interested in other Medicaid programs that they could be eligible for (known as ex-parte review). *Implementation date: 06/30/2020.*

Recommendation #3: We recommend the Department of Public Health and Human Services enhance internal controls for the Medicaid and the Children's Health Insurance Program to ensure annual redeterminations are completed accurately, using up to date information, and case files are fully supported as required by federal regulations.

Response: Concur

Corrective Action: DPHHS is enhancing its Medicaid redetermination process to ensure annual redeterminations are completed accurately. Some of these changes have already been completed (ensure the use of household income during redetermination) while others will be complete upon resumption of renewals upon conclusion of the public health emergency (checking other income types such as self-employment, rental income, etc. and ensuring income is already recalculated at redetermination.) *Planned Completion Date: 07/01/2022*

Recommendation #4: We recommend the Department of Public Health and Human Services:

- A. Provide training to staff regarding federal requirements for agreements with subrecipients.
- B. Establish and document internal controls to ensure required subrecipient disclosures are included in Foster Care, Temporary Assistance for Needy Families, Epidemiology and Laboratory Capacity for Infectious Disease, and new federal program subrecipient agreements prior to signature.
- C. Ensure the required subrecipient disclosures are included correctly in Foster Care, Temporary Assistance for Needy Families, Epidemiology and Laboratory Capacity for Infectious Disease, and new federal program subrecipient agreements and contract amendments, as required by federal regulations.

- D. Modify its Master Agreement and Task Order Contract Amendment templates for county government agreements to make it clear the federal contract disclosures are required for Epidemiology and Laboratory Capacity for Infectious Disease subrecipient agreements.

Response: Concur

Corrective Action: The Business and Financial Services Division central procurement staff have designed training for relevant staff on federal requirements for agreements with subrecipients. Training will occur semi-annually. Internal controls have been updated and a Subrecipient FAQ has been developed to aid in ensuring subrecipient disclosures are included in agreements prior to signature. Letters have been sent out to county subrecipients that were missing federal contract disclosures and future task orders issued from a master agreement have been modified to include relevant federal contract disclosures for future agreements. *Planned Implementation: 07/01/2022*

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

- A. Establish and document internal controls for the federal Epidemiology and Laboratory Capacity for Infection Disease to ensure subrecipients use funds for authorize purposes, comply with federal statues, regulations, and terms and conditions of the subaward agreement, and performance goals are achieved, as required by federal regulations.
- B. Conduct monitoring of subrecipients of the federal Epidemiology and Laboratory Capacity for Infection Disease award, as required by federal regulations.

Response: Concur

Corrective Action: The Public Health and Safety Division is establishing and documenting controls and a procedure to ensure staff are conducting post-award monitoring of subrecipients. This will include ensuring the subrecipients are using the funds for allowable purposes and meeting performance goals; and documenting this information for each subrecipient. Additionally, the Public Health and Safety division has begun conducting post-award monitoring and is developing additional monitoring procedures when required federal forms are unavailable. *Planned Completion Date: 07/01/2022*

Recommendation #6: We recommend the Department enhance internal controls to ensure records of grant applications are tracked and maintained.

Response: Concur

Corrective Action: The department has moved to an online tracking process for grant application management. In the case of the grants identified, the department works with a university partner. The department has included within the contract scope of work expectations related to record retention. The department will establish written internal controls for periodic reviews of record retention requirements and applications. *Planned Completion Date: 08/01/2022*

Recommendation #7:

- A. Establish internal control review procedures to document consideration of contractor or subrecipient classification at the time of entering into contract agreements for the Epidemiology and Laboratory Capacity federal award.
- B. Properly classify agreements as subrecipient or contractor relationships for the Epidemiology and Laboratory Capacity federal award, as required by federal regulations.

Response: Concur

Corrective Action: The department implemented and conducted a training of staff in subrecipient, beneficiary and contractor classifications in January 2021. Checklists and guidelines have been provided to aid in classification of the recipient of federal funds. Documents were provided in these trainings and staff will provide additional review to ensure that proper classification is being completed for programs. Program staff will maintain copies of forms used to determine classification. *Implementation date: 04/30/2022*

Recommendation #8: We recommend the Department of Public Health and Human Services:

- A. Design and implement internal controls for its Foster Care and Epidemiology and Laboratory Capacity for Infectious Diseases federal awards to ensure adequate support for contractor and subrecipient payments is obtained, reviewed, and approved prior to payment.
- B. Reimburse Foster Care and Epidemiology and Laboratory Capacity for Infectious Diseases federal award contractors and subrecipients only for activities allowed by federal regulations.

Response: The department believes that supporting documentation for the payments included in the audit sample are adequate to support the payments that were made to tribes and colleges and therefore subrecipient payments are allowable. However, the department does agree that increasing the amount of documentation and review related to subrecipient payments is beneficial to federal and state programs and therefore concurs.

Corrective Action: Control procedures will be designed, trained, and implemented in each program to ensure adequate documentation is collected to ensure costs and activities are reimbursed for allowable activities. *Planned Implementation: 07/01/2022*

Recommendation #9: We recommend the Department enhance internal controls to ensure duplicate payments are not made to recipients of federal funds.

Response: The department instituted detective controls that identified duplicate payments. However, these controls were implemented inconsistently across divisions. Therefore, the department concurs.

Corrective Action: Controls have been enhanced to include a quality control check prior to issuing payments. *Implementation date: 05/13/2022*

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

- A. Document internal controls over federal reporting data pulled from the department's case management system to ensure complete and accurate reporting for the Low-Income Home Energy Program.

- B. Document department-level internal controls to ensure complete and accurate reporting for the TANF ACF-199 reports.

Response: Concur

Corrective Action: The department will document internal controls over data pulled from the case management system for LIHEP reporting and the TANF ACF-199 reports. *Planned Completion Date:* 09/30/2022

Recommendation #11: We recommend the Department establish and maintain internal controls to ensure compliance with federal matching funds, earmarking, maintenance of effort, and period of performance requirements for the Child Care Development Fund program.

Response: Concur

Corrective Action: The division has adopted tools to assess the federal reporting requirements before making policy or expenditure adjustments. These tools are now used routinely by the CCDF budget analyst. The tools are used for tracking timelines and priority of funding for MOE and mandatory expenditures. Program fiscal reviews are conducted monthly. *Implementation date:* 01/03/2022

Recommendation #12: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls over cost allocation, including consideration of its in-depth review of its cost allocation procedures and plan.
- B. Allocate costs as specified in the cost allocation plan, as required by federal regulations.
- C. Implement changes to the cost allocation process only after receiving approval from, or submitting a plan revision, to the federal government.

Response: Concur

Corrective Action: The department has entered into a contract and is currently performing an in-depth review and modernization of the cost allocation procedures and plan. The contract scope of work includes activities that will ensure implementation of the recommendations. *Planned Completion date:* 08/15/2022

Recommendation #13: We recommend the Department of Public Health and Human Services:

- A. In conjunction with enhancements to Foster Care subrecipient award agreements discussed in Recommendation #4, enhance internal controls to ensure contracting system information is complete and accurate for Foster Care subawards.
- B. Enhance internal controls to identify when changes in data fields in the contracting system impact its ability to properly identify changes in contract obligations for FFATA reporting for the TANF program.
- C. Enhance internal controls to ensure the BFSD staff receives unique entity identification number information for ELC contracts to allow proper FFATA reporting.
- D. Submit accurate and complete FFATA reports for Foster Care, TANF and ELC programs, as required by federal regulations.

Response: Concur

Corrective Action: Internal controls in relation to recommendation #4 have been established in the Business and Financial Services Division (BFSD) with a planned completion date of 07/01/2022. Additionally, controls will be enhanced to ensure BFSD receives unique entity identification information and that identification of data field changes in the contracting system are captured for FFATA reporting. *Planned completion date 09/01/2022.*

Recommendation #14: We recommend the Department of Public Health and Human Services:

- A. Enhance internal control to review Foster Care CB-496 reports for accuracy prior to submission.
- B. Submit accurate information for cost recoveries and adjustments from prior periods on Foster Care CB-496 reports, as required by federal regulations.
- C. Submit accurate upcoming quarterly federal expenditure information on Foster Care CB-496 reports to facilitate compliance with the use of non-general fund money first, as required by law.

Response: Concur

Corrective Action: Procedures have been updated and internal controls have been implemented for review of the CB-496 report with additional instructions for approval prior to submission of the report. In addition, procedures have been updated along with the additional documentation necessary from the Child Support Services program requiring a copy of reports to serve as backup to the CB-496.
Implementation date: 06/30/2021

Recommendation #15: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to ensure compliance with Medicaid NCCI confidentiality agreement requirements.
- B. Obtain a confidentiality agreement with any contracted party and their subcontractors prior to sharing Medicaid NCCI edit files per federal requirements.

Response: Conditionally Concur. In light of the general confidentiality provision contained in the Department's agreement with the contractor (and the contractor's maintenance of confidentiality agreements with subcontractors) that all information obtained in connection with the agreement was confidential and could not be accessed or used with the review and approval by the Department prior to use, publication, or release, the Department disagrees with the statement that "without the required confidentiality agreements, there is increased risk edit files may be used inappropriately by entities outside the department."

Corrective Action: The department has obtained a confidentiality agreement with Cotiviti, the Medicaid NCCI Contractor. *Implementation date 05/31/2022.*

Recommendation #16: We recommend the Department of Public Health and Human Services:

- A. Establish and maintain adequate internal controls to receive and review assurance over the EBT service provider for SNAP Cluster and Temporary Assistance for Needy Families federal programs.

- B. Comply with federal regulation for the SNAP Cluster by requiring a yearly examination of EBT service provider transaction processing regarding the issuance, redemption, and settlement of program benefits and review the results.

Response: The department is unable to fully implement the recommendation due to unalterable time constraints. It is not effective or feasible to request a vendor to provide assurances prior to the expectation being established (see Corrective Action, below.) Therefore, the department conditionally concurs.

Corrective Action: DPHHS will document internal controls to receive and review assurance over the EBT service provider for SNAP Cluster and Temporary Assistance for Needy Families federal programs. B. The Department is in compliance with federal regulation for the SNAP Cluster by requiring a yearly examination of EBT service provider transaction processing. In 2020 the department instructed its EBT vendor to provide a SOC 1 Type 2 report. The first SOC-1 report only covered the SFY 2022 (FFY 2021) period. All future SOC reports will cover the full FFY and be delivered the agency every January. *Planned Completion Date: 12/31/2022*

Recommendation #17: We recommend the Department review the SOC report for the CHIP claims processor, and document this review, to ensure there are no issues with the services received from the vendor and to ensure all necessary department-level controls are implemented.

Response: Concur

Corrective Action: Health Resources Division will work with the IT team to develop a procedure to ensure the SOC report for the CHIP claims processor has a documented review. *Planned Completion Date: 07/15/2022*

Recommendation #18: We recommend the Department of Public Health and Human Services:

- A. Enhance internal controls to complete annual inspections of childcare providers per federal requirements for the Child Care Development Fund program.
- B. Comply with federal regulations by completing annual inspections of childcare providers.

Response: Concur

Corrective Action: The department will implement an alert in the CCUBS system notifying licensors of pending expirations 30 days prior to the expiration date. In addition, licensor processes will be updated to include mandatory monthly review of the renewal log. The childcare licensing manager will monitor the completion of this activity for each licensor. *Implementation date: 08/01/2022*

Recommendation #19: We recommend the Department of Public Health and Human Services:

- A. Develop internal controls to ensure a separate account is used to record activity for each federal program administered by the department.
- B. Report information for each federal financial assistance program on a separate row of the department's SEFA worksheet, as required by Office of Budget and Program Planning Instructions.

Response: Concur

Corrective Action: The Department updated the internal control document associated with requesting changes to chartfield accounting structure. These updates require the inclusion of the CFDA number when creating or revising new and existing chartfields. The control update was communicated to staff and new instructions were provided. Additionally, the SEFA report in question was amended to include this information. *Implementation date: 02/15/2022*

Sincerely,



Adam Meier, Director
Department of Public Health and Human Services

Cc:

Kim Aiken, Chief Financial Officer
Charlie Brereton, Chief of Staff
Erica Johnston, Executive Director, Economic Securities Branch
Marie Matthews, Executive Director, Medicaid Services Branch
Chanda Hermanson, Disability and Employment Transitions Administrator
Gene Hermanson, Human and Community Services Administrator
Nikki Grossberg, Child and Family Services Administrator
Christie Twardoski, Child Support Services Administrator
Corinne Kyler, Business and Financial Services Administrator
Todd Harwell, Public Health and Safety Administrator
Carter Anderson, Office of the Inspector General
Carrie Albro, Technology Services and Chief Information Officer
Rebecca De Camara, Behavioral Health and Developmental Disabilities Administrator
Darci Wiebe, Health Resources Administrator
Barb Smith, Senior and Long-term care Administrator
Jamie Palagi, Early Childhood and Family Services Administrator
William Evo, Healthcare Facilities Deputy Administrator
Chad Hultin, Audit Liaison
Karol Ann Davis, Human Resources Director
Paula Stannard, Chief Legal Council