

Department of
Human Services
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2013

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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Transmittal Letter

January 27, 2014

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Maggie Anderson, Executive Director, Department of Human Services

We are pleased to submit this audit of the Department of Human Services for the biennium ended June 30, 2013. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Allison Bader. Paul Welk, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Director Anderson and her staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Human Services is an umbrella agency headed by an Executive Director appointed by the Governor. The Department is organized into three major divisions: Field Services; Program and Policy Management; and Managerial Support.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the Department of Human Services in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Other than our findings addressing the "Fixed Asset Internal Control Weakness" (page 14), "Lack of Internal Control Fraud Risk Assessment" (page 15), and "Lack of Internal Controls at State Hospital Commissary" (page 16), we determined internal control was adequate.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

Other than our work addressing "Online Child Care Provider Records Improvement" (page 20), there were no indications of a lack of efficiency in financial operations and management of the Department of Human Services.

5. Has action been taken on findings and recommendations included in prior audit reports?

Except "Control/Fraud Risk Assessment Activities" and "Lack of Internal Controls at State Hospital Commissary" as shown on page 23, the Department of Human Services has implemented all recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 24 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Department of Human Services' financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.

- ConnectND Finance
- Human Resource Management System (HRMS)
- MMIS (Medicaid Management Information System)
- VISION
- TECS (Technical Eligibility Computer System)
- LIHEAP (Low Income Home Energy Assistance Program)
- Child Care Assistance
- CCWIPS (Comprehensive Child Welfare Information Payment System)
- ROAP (Regional Office Automated Program)
- VRIS (Vocational Rehabilitation Information System)
- FACSES (Fully Automated Child Support Enforcement System)
- AIMS (Advanced Institutional Management Software)
- Contract Information System

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the Department of Human Services for the biennium ended June 30, 2013 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the Department of Human Services' operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Department of Human Services and are they in compliance with these laws?
3. Are there areas of the Department of Human Services' operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Department of Human Services is for the biennium ended June 30, 2013. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department of Human Services has its central office in the Capitol, eight regional human service centers, eight regional child support enforcement units, the State Hospital in Jamestown, ND, and the Life Skills Transition Center in Grafton, ND.

Locations were selected based on the level of activities (the Bismarck office has the bulk of activities) and audit rotation of regional offices' internal control activities. Financial transactions through ConnectND and the Human Resources Management System (HRMS) for all locations were included in the audit scope.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-

statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.

- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed Department of Human Services' processes and procedures.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present the Department of Human Services' revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2013, operations of the Department of Human Services were primarily supported by federal funds. This is supplemented by appropriations from the general fund and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of federal revenues as well as patient care and treatment fees, revenue from local governments, and economic assistance collections. These types of revenues made up 99% of all of the Department of Human Services' revenue. Total revenues were \$746,168,879 for the year ended June 30, 2013 as compared to \$711,789,890 for the year ended June 30, 2012.

The largest source of revenue for the Department of Human Services is from the federal government. Federal revenue increased approximately \$25.4 million during fiscal year 2013 compared to the prior fiscal year. This increase reflects primarily an increase in federal funds available to the state for various programs including the Medicaid Health Record Incentive Program established in fiscal year 2012 and the Children's Health Insurance Program Reauthorization Act as well as increased qualifying expenditures for Medicaid, Child Support, and Low Income Energy Assistance.

Other significant revenues during the audited period included various patient care and treatment fees, revenue from local governments, and economic assistance collections. Patient care and treatment fees increased approximately \$11.7 million during fiscal year 2013 compared to the prior fiscal year due to timing of drug rebates, estate collections, and Medicaid provider audit settlements. Economic assistance collections consist of child support incentive funds and child support amounts retained by the state due to custodial parents qualifying to receive other economic assistance in lieu of child support. Revenue from local governments and economic assistance collections remained fairly constant during the audit period.

Total expenditures for the Department of Human Services were \$1,227,789,030 for the year ended June 30, 2013 as compared to \$1,165,573,004 for the prior year. Grants accounted for the majority of the increase in total expenditures for the audited period. Grant expenditures increased approximately \$38.7 million during fiscal year 2013 compared to the prior fiscal year. The majority of this increase is due to the rebase of nursing home rates in January 2013 in accordance with NDCC 50-24.4, 3% inflationary increase in allowable rates for providers approved by the legislature, and increased caseload in transitioning patients into the community from the Life Skills and Transition Center. All other expenditures remained fairly constant, increasing to a lesser degree.

The Department of Human Services accounts for child support collections and disbursements in an agency fund. Agency fund activity is not included in the financial statements in this report. For the audit period, collections totaled \$244,504,928 and disbursements totaled \$244,910,113.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess Operating Expense appropriations over actual expenditures was due to the timing of completion for information technology projects including the Eligibility, Vocational Rehabilitation, Medicaid Management Information System (MMIS) International Classification of Disease Project, and MMIS Legacy and Enterprise Operating Rules Projects. Appropriation of \$43.7 million was approved for carry over to the 2013-2015 biennium by the Carryover Committee.

Appropriation for the replacement of the MMIS was originally approved in chapter 50 of the 2007 Session Laws. Chapter 12, section 4 of the 2013 Session Laws allows for the carryover of these funds into the 2013-2015 biennium. The estimated completion date of the new system has been delayed and, as a result, actual expenditures have been less than the amounts budgeted.

The majority of excess appropriation in the Grants line is due to the caseloads for the Supplemental Nutrition Assistance, Temporary Assistance for Needy Families, and Low Income Heating Assistance Programs being less than budgeted as a result of the strong economy.

Excess appropriation in the Grants-Medical Assistance line is mainly due to less than anticipated expenditures for the Medicaid program resulting from a decrease in the daily rate and number of days for residents in nursing home care. The excess appropriation is also due to less than anticipated expenditures for the Medicaid Electronic Health Record Incentive Program.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<u>Revenues and Other Sources:</u>		
Revenue from Federal Government	\$706,190,031	\$680,813,752
Patient Care and Treatment Fees	19,540,627	7,816,912
Revenue from Local Governments	12,264,191	11,310,728
Economic Assistance Collections	5,850,687	6,189,933
Concessions and Miscellaneous Sales	409,369	382,093
Pharmacy Sales	363,464	453,757
Other Revenue and Sources	1,107,329	3,143,810
Transfers In	443,181	1,678,905
Total Revenues and Other Sources	<u>\$746,168,879</u>	<u>\$711,789,890</u>
<u>Expenditures and Other Uses:</u>		
Grants	\$980,933,153	\$942,227,951
Salaries and Benefits	139,696,768	134,963,743
Operating Fees and Services	43,551,188	39,705,771
IT Data Processing and Communication	23,396,500	19,768,013
IT Contractual Services	11,844,772	5,141,558
Lease/Rental of Building/Land/Equipment	4,656,978	4,627,663
Extraordinary Repairs	3,167,700	699,705
Professional Service Fees	2,620,967	2,130,434
Travel	2,486,702	2,652,944
Utilities	2,225,590	2,096,900
Supplies	2,199,182	2,119,559
Medical, Dental, and Optical	1,403,018	1,899,385
Postage	1,037,742	909,314
Repairs	777,095	719,666
Printing	631,508	639,144
Professional Development	563,558	619,951
Equipment Over \$5,000	514,748	943,963
Equipment Under \$5,000	361,507	200,576
Other Expenses	1,613,477	1,087,861
Transfers Out	4,106,877	2,418,903
Total Expenditures and Other Uses	<u>\$1,227,789,030</u>	<u>\$1,165,573,004</u>

Statement of Appropriations

For The Biennium Ended June 30, 2013

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 66,178,452	\$ 324,629	\$ 66,503,081	\$ 64,540,056	\$ 1,963,025
Operating Expenses	154,993,116	32,453,964	187,447,080	135,863,065	51,584,016
Capital Assets	138,400	78,000	216,400	168,780	47,620
MMIS Carryover	1,474,362	39,206,539	40,680,901	13,877,240	26,803,661
Construction Carryover		62,601	62,601	57,577	5,024
Grants	490,266,037	(9,516,986)	480,749,051	394,866,212	85,882,839
HSC / Institutions	286,870,639	511,939	287,382,578	278,362,652	9,019,925
Grants-Medical Assistance	1,605,505,045	20,900,000	1,626,405,045	1,505,484,391	120,920,654
Totals	<u>\$2,605,426,051</u>	<u>\$ 84,020,686</u>	<u>\$2,689,446,737</u>	<u>\$2,393,219,973</u>	<u>\$ 296,226,764</u>
Expenditures by Source:					
General Fund	\$ 932,025,219	\$ 30,935,276	\$ 962,960,495	\$ 937,478,862	\$ 25,481,633
Other Funds	1,673,400,832	53,085,410	1,726,486,242	1,455,741,111	270,745,131
Totals	<u>\$2,605,426,051</u>	<u>\$84,020,686</u>	<u>\$2,689,446,737</u>	<u>\$2,393,219,973</u>	<u>\$ 296,226,764</u>

Appropriation Adjustments

The \$324,629 increase to the Salaries and Benefits line consisted of the following adjustments:

- \$687,786 – Authorized by House Bill 1475 of the 2011 Special Session Laws, sections 1 and 3, to defray the expenses of incorporating the Medicaid and children's health insurance program eligibility determination functionality into the health benefit exchange and corresponding costs related to the modification of the department's economic assistance eligibility system and to defray the expenses of implementation of the federal Affordable Care Act. These sections authorized 8 full-time equivalent positions for these initiatives.
- \$75,758 – Authorized by Senate Bill 2015 of the 2011 Session Laws, section 1, for increased general fund spending authority for the state student internship program.
- (\$438,915) – Authorized by Senate Bill 2012 of the 2011 Session Laws, section 3, which allows the Department of Human Services to transfer appropriation authority between line items and subdivisions.

The \$32,453,964 increase to the Operating Expenses line consisted of the following adjustments:

- \$42,434,418 - Authorized by House Bill 1475 of the 2011 Special Session Laws, sections 1 and 3, to defray the expenses of incorporating the Medicaid and children's health insurance program eligibility determination functionality into the health benefit exchange and corresponding costs related to the modification of the Department's

economic assistance eligibility system and to defray the expenses of implementation of the federal Affordable Care Act.

- (\$9,980,454) - Authorized by Senate Bill 2012 of the 2011 Session Laws, section 3, which allows the Department of Human Services to transfer appropriation authority between line items and subdivisions.

The \$78,000 increase to the Capital Assets line was authorized by Senate Bill 2012 of the 2011 Session Laws, section 3, which allows the Department of Human Services to transfer appropriation authority between line items and subdivisions.

The \$39,206,539 increase to the MMIS carryover line consisted of the following adjustments:

- \$19,817,174 – Authorized by Senate Bill 2012 of the 2011 Session Laws, section 4, to allow the Department of Human Services to carryover appropriation from the 2009-2011 biennium for the Medicaid management information system project.
- \$19,389,365 - Authorized by Senate Bill 2012 of the 2011 Session Laws, section 3, which allows the Department of Human Services to transfer appropriation authority between line items and subdivisions.

The \$62,601 increase to the Construction Carryover line was authorized by the Capital Construction Carryover Committee for the purpose of a sewer lift station and a chilled water coil at the State Hospital.

The (\$9,516,986) decrease to the Grants line was authorized by Senate Bill 2012 of the 2011 Session Laws, section 3, which allows the Department of Human Services to transfer appropriation authority between line items and subdivisions.

The \$511,939 increase to the HSC / Institutions line consisted of the following adjustments:

- \$42,949 - Authorized by Senate Bill 2015 of the 2011 Session Laws, section 1, for increased general fund spending authority for the state student internship program.
- \$468,990 - Authorized by Senate Bill 2012 of the 2011 Session Laws, section 3, which allows the Department of Human Services to transfer appropriation authority between line items and subdivisions.

The \$20,900,000 increase to Grants-Medical Assistance line was authorized by House Bill 1023 of the 2013 Session Laws, section 1, and declared an emergency measure for increased general fund spending authority.

Expenditures Without Appropriations Of Specific Amounts:

- Conference fund has a continuing appropriation authorized by OMB Policy 211 (\$17,204 of expenditures for this biennium).
- Insurance Recoveries fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$29,214 of expenditures for this biennium).
- Child Support Disbursement Unit fund has a continuing appropriation authorized by NDCC 14-09-25(5) (\$244,910,113 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2013, we identified the following areas of the Department of Human Services' internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls surrounding the processing of payroll.
- Controls relating to compliance with legislative intent including:
 - Licensing of treatment or care centers for developmentally disabled persons in accordance with NDCC 25-16-03.
 - Processing child care transition assistance payments to the child care provider in accordance with NDCC 50-09-38(2).
 - Approval of relative providers receiving child care assistance in accordance with NDCC 50-33-06.
 - Controls surrounding third-party liability collection procedures of the Medicaid program.
 - Controls surrounding the provider enrollment procedures of the child care assistance program.
 - Controls surrounding the vocational rehabilitation program.
 - Controls surrounding the mental health extended services program.
 - Controls surrounding the state hospital commissary.
 - Controls surrounding application, award, and monitoring procedures of the independent living grant program.
 - Controls surrounding the application, award, and monitoring procedures of the grants for infants and families - early intervention services cluster.
 - Controls surrounding the restriction of payments to deceased or incarcerated individuals.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded that internal control was not adequate noting certain matters involving internal control and its operation that we consider to be significant deficiencies.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. 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 (1) misstatements in financial or performance information, (2) violations of laws and regulations, or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we identified the following significant deficiencies in internal control. We

also noted other matters involving internal control that we have reported to management of Department of Human Services in a management letter dated January 27, 2014.

Fixed Assets Internal Control Weakness (Finding 13-1)

Condition:

The Department of Human Services (DHS) has not developed procedures to ensure software purchased from outside vendors and internally developed software is properly capitalized.

Information Technology Department project management reports indicate the Department of Human Services has over \$57 million in intangible projects that have not been capitalized.

Criteria:

Office of Management and Budget (OMB) Fiscal and Administrative Capitalization Policy revised in 2010 requires that software purchased from outside vendors be capitalized if its cost is \$5,000 or more and that internally developed software be capitalized if its cost is \$50,000 or more.

Cause:

DHS was unaware that OMB made changes to the Fiscal and Administrative Capitalization Policy relating to software.

Effect or Potential Effect:

The fixed asset checklist and construction in progress summary form submitted to (OMB) for the 2012 Comprehensive Annual Financial Report did not include amounts related to the Medicaid management information system and other internally developed software.

Recommendation:

We recommend the Department of Human Services develop procedures to ensure software purchased from outside vendors and internally developed software is properly capitalized in accordance with the Office of Management and Budget's Capitalization Policy.

Department of Human Services Response:

The Department will develop policies and procedures to ensure software is properly capitalized.

Lack of Internal Control Fraud Risk Assessment (Finding 13-2)

Condition:

The Department of Human Services did not complete a department-wide risk assessment to identify control weaknesses in the Department's financial, compliance, and operational areas. While the Department did prepare assessments of operations for fiscal, legal, provider audit, human resources, employee assistance, and child support functions during fiscal year 2011, updates to these assessments were not made during the current audit period. Fraud risk assessments have not been completed for several major program operations managed by the Department including medical services, human service centers, information technology, and children and family services.

Criteria:

Office of Management and Budget Policy 216 requires all state agencies to perform a fraud risk assessment for each of their functions and/or divisions on a biennial basis.

Cause:

Lack of resources dedicated to monitoring internal controls. Failure to implement recommendation since the audit of the Department for the biennium ended June 30, 2009.

Effect or Potential Effect:

Without adequate risk assessment, fraud and excessive errors can occur without being prevented or detected by management.

Recommendation:

We recommend the Department of Human Services:

- Establish and perform control risk assessments, including a fraud risk assessment, on a biennial basis; and
- Design and document the necessary control activities to ensure that each significant risk and fraud exposure identified during the risk assessment process has been adequately addressed.

Department of Human Services Response:

The Department does not have staff resources to complete a department-wide risk assessment on a biennial basis; however, we will continue to perform assessments with the resources available.

Lack of Internal Controls at State Hospital Commissary (Finding 13-3)

Condition:

The following internal control weaknesses were identified at the State Hospital's Commissary:

- No control to ensure that all purchases of inventory are received at the commissary;
- Analysis of revenues and expenditures is not properly performed; and
- Disposals of inventory are not approved.

Criteria:

According to the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Controls and Control Activities, properly designed control and monitoring activities are necessary to ensure mitigation of risk and achievement of objectives.

Cause:

The risks associated with the cash collections and inventory transactions made at the commissary were not adequately assessed by management.

Effect or Potential Effect:

The Commissary recorded approximately \$169,000 of revenue during fiscal year 2013 with the majority of collections being cash. The significant control weaknesses noted exposed cash and inventory to theft and fraud as well as large variances in profit margins from month to month were left unexplained.

Recommendation:

We recommend the Department of Human Services develop internal controls to ensure:

- All inventory purchased is received by the commissary;
- Revenues and expenditures are analyzed periodically; and
- All disposals of inventory are approved.

Department of Human Services Response:

The Department will strengthen internal controls surrounding the commissary activities.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2013, we identified and tested the Department of Human Services' compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriation laws (2011 Session Laws):
 - \$250,000 appropriated from federal funds for providing grants with proper matching funds from the recipient to support a statewide school and community-based youth network dedicated to implementing risk behavior prevention efforts (chapter 38, section 7).
 - Proper use of unexpended appropriation authority relating to developmental disabilities grants resulting from caseload or cost changes during the 2011-2013 biennium for costs associated with transitioning individuals from the developmental center to communities during the 2011-2013 biennium (chapter 38, section 8).
 - \$400,000 appropriated from the health care trust fund of which \$200,000 was provided as a grant to the government nursing facility and \$200,000 was provided to the hospital with a government nursing facility that participated in the intergovernmental transfer payment program and meets population requirements (chapter 38, section 10).
 - \$3,100,000 appropriated from the general fund for providing grants to child care services providers for workforce development, quality improvement, technical assistance, and capacity building as provided for in NDCC 50-11.1-14.1 (chapter 50, section 27).
 - \$110,000 appropriated from the general fund for providing traumatic brain injury case management services in eastern North Dakota (chapter 51, section 1).
 - \$1,293,211 from the Bank of North Dakota for sale of loans in the developmentally disabled facility revolving fund were properly deposited in the common schools trust fund (chapter 81, section 2).
 - \$546,786 appropriated from the health care trust fund and \$679,193 from federal funds and other income for the purpose of providing payments for nursing facilities as provided in sections 1 and 2 of chapter 189 (chapter 189, section 3).
 - \$50,000 appropriated from the general fund for funding the early childhood services inclusion support services (2011 Session Laws, chapter 361, section 2).
 - \$64,000 appropriated from the general fund for funding guardianship program enhancements (chapter 416, section 2).
- Compliance with appropriation laws (2011 Special Session Laws):
 - \$8,736,675 appropriated from the general fund and \$33,881,250 from federal funds and other income for the purpose of defraying expenses of incorporating the Medicaid and children's health insurance program eligibility determination functionality into the health benefit exchange and corresponding costs related to the modification of the economic assistance eligibility system (chapter 578, section 1).
 - \$214,123 appropriated from the general fund and \$290,156 from federal funds and other income for the purpose of defraying expenses of implementation of the federal Affordable Care Act (chapter 578, section 3).

- Proper use and authorization of the following legally restricted funds:
 - Employment of People with Disabilities Fund (NDCC 39-01-15 (5)).
 - Compulsive Gambling Prevention Fund (NDCC 50-06-22).
 - North Dakota Health Care Trust Fund (NDCC 50-30-02).
 - Community Health Trust Fund (NDCC 54-27-25).
 - Children's Trust Fund (NDCC 50-27-02).
 - Child Support Disbursement Unit Fund (NDCC 14-09-25).
 - Human Services Donor Implied Trust Fund (NDCC 59-21).
- Proper authorization of expenditures without appropriations of specific amounts:
 - State Conference Fund (OMB Policy 211).
 - Insurance Recoveries Fund (NDCC 54-44.1-09.1)
 - Child Support Disbursement Unit Fund (NDCC 14-09-25(5)).
- Proper fund authorization of other funds:
 - Provider Assessment Fund (NDCC 57-63-13).
 - Human Services Department Fund (NDCC 50-06-14).
- Proper creation of a child support lien registry using an interactive website in accordance with NDCC 35-34-02.1 (2011 Session Laws, chapter 251, section 8).
- Proper development, through the Developmental Disabilities System Reimbursement Project requirements, a prospective or related payment system with an independent rate model utilizing the support intensity scale (2011 Session Laws, chapter 353, section 1).
- Allowance as a deduction from countable gross rental income for determining the cost of care for medical assistance eligibility the real estate taxes for rental property if the individual is responsible for paying the real estate taxes for that property in accordance with NDCC 50-24.1-02.10 (2011 Session Laws, chapter 364, section 1).
- Proper enforcement of the moratorium on expansion of psychiatric residential treatment facility for children bed capacity in accordance with NDCC 25-03.2-03.1.
- Proper licensing and inspection of treatment or care centers for developmental disabled persons in accordance with NDCC 25-16-03 and 25-16-04, respectively.
- Proper on-line publication notice of information related to the drug use review program in accordance with NDCC 50-24.6-05.
- Proper approval of relative providers receiving child care assistance in accordance with NDCC 50-33-06.
- Proper payment of claims submitted by enrolled medical providers on behalf of inmates at county jails in accordance with NDCC 50-24.1-34.
- Proper reimbursement rate established for alcoholism and drug abuse treatment in accordance with NDCC 54-38-09.
- Proper payment of assistance to the child care provider under the transition assistance program for a portion of the cost of child care for families that lose eligibility and remain ineligible for benefits in accordance with NDCC 50-9-38 (2011 Session Laws, chapter 356, section 1).
- Compliance with appropriations and related transfers (2011 North Dakota Session Laws chapter 38, 2011 North Dakota Special Session Laws chapter 578, 2013 North Dakota Session Laws chapter 23 (Emergency Measure)).
- Compliance with credits to appropriations in accordance with OMB Policy 214.
- Proper use of the Bank of North Dakota as depository for credit card collections (NDCC 54-06-08.2).
- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with OMB's Purchasing Procedures Manual.

- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts, petty cash funds, and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

While we did not find any items that were required to be reported in accordance with *Government Auditing Standards*, we noted certain inconsequential or insignificant instances of non-compliance that we have reported to management of the Department of Human Services in a management letter dated January 27, 2014.

Operations

Our audit of the Department of Human Services identified the following area of potential improvement to operations, as expressed by our operational objective:

- Is North Dakota one of the growing number of states that have launched online daycare record systems?

Online Child Care Provider Records Improvement (Finding 13-4)

Condition:

The Department of Human Services is not currently making child care provider information that would be useful to parents available on the Internet. While parents may request child care provider information from the Department of Human Services or county social services offices, North Dakota is one of only 18 states that has neither inspection nor complaint reports available on the Internet.

The following inefficiencies were noted:

- The child care providers identified on the Child Care Aware of North Dakota website is limited to providers with vacancies and the website does not identify providers offering waiting list opportunities. The Department of Human Services or the county social service offices directs parents to the Child Care Aware website for assistance in choosing child care. The Child Care Aware website only identifies providers with vacancies as reported by the provider. A full listing of licensed child care providers is not available online.
- Availability of complaint and licensing inspection reports is limited to specific providers as requested by the parent. Parents may request a listing of all providers by location and receive this list via postal mail or email methods. The parent must then narrow the selection of providers to request further information based simply on the providers' name and address, rather than potentially the number and type of inspection violations or complaint reports.
- Parents' access to information is restricted by the operating hours of the Department of Human Services' and the county social service offices and employee availability.
- Mapping functionality to locate providers based on locations close to or en route to the parent's home, place of employment, school, etc. is not available compared to the available functionality in other states.

Criteria:

The Administration for Children and Families within the U.S. Department of Health and Human Services published on May 20, 2013 (78 FR 29441) a proposed rule to "make changes to the regulatory provisions in order to strengthen health and safety requirements for child care providers, reflect current state and local practices to improve the quality of child care, infuse new accountability for federal tax dollars, and leverage the latest knowledge and research in the field of early care and education to better serve low-income children and families." The proposed rule would amend paragraph (a) of § 98.33 to require Lead Agencies to post provider-

specific information to a user-friendly, easy-to-understand website. The proposed requirements would require the lead agency to make available on a website: provider specific information about health and safety, licensing or regulatory requirements met by the provider, including the date the provider was last inspected, any history of violations of these requirements, and any compliance actions taken. The second part of the proposed revision to §98.33 (a)(2) would require the lead agencies to include on the Web site a description of health and safety and licensing or regulatory requirements for child care providers and processes for ensuring that child care providers meet those requirements. This would include information about background check processes for providers, as well as any other individuals in the child care setting, and what offenses preclude a provider from serving children.

The National Bureau of Economic Research publication, "What Happens When Child Care Inspections and Complaints Are Made Available on the Internet?", by Ann Dryden Witte and Magaly Queralt, provides substantial evidence that placing child care provider inspection and complaint reports on the Internet changed the procedures of child care inspectors and improved the quality of child care received by low-income children. They found inspectors performed more inspections and provide more mixed reviews of centers after this information was published on the Internet. In addition, the quality of child care received by subsidized children increased significantly.

According to Child Care Aware of America's report, "We Can Do Better: 2013 Update," posting inspection reports on the Internet is important to ensure that parents have access to relevant information to help them make the best child care choices possible. When states do not make the information available or when parents must visit licensing offices or wait for written responses to inquiries about specific providers, parents do not have easy access to information essential to making an informed decision about child care settings. The result is that some parents may unknowingly put their children in unsafe and unhealthy situations.

Cause:

The Department of Human Services indicated current procedures were adequate.

Effect or Potential Effect:

Management is not ensuring a complete list of child care providers is easily accessible to parents. Management is also not ensuring there is efficient external communication of child care provider inspection and complaint reports. As a result, parents may unknowingly put their children with a provider not offering the most favorable care and safest environments.

Operational Improvement:

We recommend the Department of Human Services improve licensed child care provider information available on the Internet to:

- Include a full listing of licensed providers with inspection results and complaint reports;
- Allow licensed child care providers to identify waiting list options;
- Eliminate employee time and availability restraints placed on parents trying to access information; and,
- Allow mapping functionality to view provider's based on location areas.

Department of Human Services Response:

The Department of Human Services will continue to evaluate the licensing and consumer education process through surveys and other means of collecting feedback from providers, parents, and other stakeholders in an effort to provide efficiency and quality of services. The Department believes that referring parents first to providers who have vacancies, is efficient for both the parent and the providers. Parents logically want to start their search with programs that have openings. If there are no vacancies that match the parents' need, they are then able to expand their search by obtaining a readily available list of all providers in either a hard copy or electronic format. Once a parent has identified some options, they are able to contact the county social service office in person, by phone or by email to obtain a complete summary of the licensing history of any providers they are interested in.

Together with the Department of Human Services, the State Legislature and other state agencies have recognized the current child care shortage in our state as a primary concern. Together, we are working together to intentionally address childcare capacity, quality, and parental education. Through multiple meetings and conversations with early childhood services providers, the Department has recognized that publishing the licensing history of providers online for the public to view for any reason would seem overly invasive to some providers and would likely result in the loss of some licensed providers. At this time, the Department is resistant to any initiative that would result in a decreased child care capacity while also taking away existing resources targeted to capacity building and quality improvement.

In regard to the criteria section of this recommendation, the Department is aware of the proposed federal rule which would require states to develop a website that would make provider specific information available to the public in an online format. The Department works closely with our federal partners and will monitor and comply with the outcome of the final federal rules. Because federal proposed rules often change prior to publication as final rules, it does not seem to be a good use of resources to begin planning a website when final federal requirements have not been published. It would be more efficient to have a thorough understanding of what the federal office will require, as well as any additional federal support that may come with the requirement, before beginning any website planning or development. At this time, the Department will continue to work with Child Care Aware and the county social service offices to provide parents thorough, accurate and timely information for providers they are considering as child care options.

Prior Recommendations Not Implemented

Prior recommendations have been implemented with the exception of the following:

Control/Fraud Risk Assessment Activities (Finding 11-1)

Recommendation:

We recommend the Department of Human Services:

- Establish and perform control risk assessments, including a fraud risk assessment, on a biennial basis; and
- Design and document the necessary control activities to ensure each significant risk and fraud exposure identified during the risk assessment process has been adequately addressed.

Status:

Not Implemented. See recommendation 13-2.

Lack of Internal Controls at State Hospital's Commissary (Finding 11-4)

Recommendation:

We recommend the Department of Human Services develop internal controls to ensure:

- All inventory purchased is received by the commissary;
- The till tapes are independently reconciled to the bank statements;
- Revenues and expenditures are analyzed periodically;
- A written pricing policy is developed; and
- Inventory disposals are tracked and approved.

Status:

Partially Implemented. See recommendation 13-3.

Management Letter (Informal Recommendations)

January 27, 2014

Maggie D. Anderson, Executive Director
Department of Human Services
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Anderson:

We have performed an audit of the Department of Human Services for the biennium ended June 30, 2013, and have issued a report thereon. As part of our audit, we gained an understanding of the Department of Human Services' internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

Informal Recommendation 13-1: We recommend the Department of Human Services ensure the following:

- Fixed assets physical inventory policy and the annual fixed asset inventory memorandum sent to each location identify that inventory should be taken by an individual who has no custodial or record keeping responsibilities.
- Inventory record reconciliation be certified as to the accuracy of the physical inventory pursuant to NDCC 44-04-07.

Informal Recommendation 13-2: We recommend the Department of Human Services strengthen controls surrounding purchase card expenditures to ensure state procurement requirements are followed.

Informal Recommendation 13-3: We recommend the Department of Human Services follow the Office of Management and Budget's Procurement Manual requirements when making purchases.

Informal Recommendation 13-4: We recommend the Department of Human Services perform a documented reconciliation of the county reimbursement upload to Peoplesoft to ensure accuracy of payment information.

Informal Recommendation 13-5: We recommend the Department of Human Services implement uniform procedures and proper documentation to ensure rental property tax deduction from countable gross rental income is calculated correctly for medical assistance eligible individuals in accordance with NDCC 50-24.1-02.10.

Informal Recommendation 13-6: We recommend the Department of Human Services implement controls to ensure written requests are received from the provider as authorization for child care payments to be made directly to the parent as required by Administrative Code 75-02-01.3-06.

Informal Recommendation 13-7: We recommend the Department of Human Services implement controls to ensure criminal history record check documents are retained in accordance with the state of North Dakota's Record Retention Policy.

Informal Recommendation 13-8: We recommend the Department of Human Services include a provision for full, fair, accurate, timely, and understandable disclosure in reports and documents in the code of conduct policy.

Informal Recommendation 13-9: We recommend the Department of Human Services implement a tracking procedure to ensure the 60-day maintenance period is completed before a client receives mental health extended services in accordance with the Department's Mental Health Extended Services Policy.

Informal Recommendation 13-10: We recommend the Department of Human Services ensure all adjusting accounting entries are assigned a correction code identifying the risk level of the activity to ensure proper approval of high risk transactions.

Informal Recommendation 13-11: We recommend the Department of Human Services ensure all GL correcting entries are processed with source code ONL and that source code DEP is only used for on-line deposits.

Informal Recommendation 13-12: We recommend the Department of Human Services adjust the sampling procedures used by the Quality Assurance Division to gain assurance that Child Care Assistance case files from all counties have been reviewed over a specific period of time.

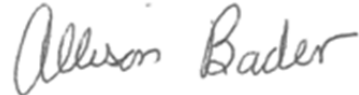
Informal Recommendation 13-13: We recommend the Department of Human Services ensure proper physical security of confidential employee human resource documents.

Informal Recommendation 13-14: We recommend the Department of Human Services perform follow up procedures on training deficiencies to ensure licensed providers and staff of treatment or care centers for developmentally disabled persons have adequate training in accordance with NDCC 25-16-03.

Management of Department of Human Services agreed with these recommendations.

I encourage you to call myself or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

A handwritten signature in cursive script that reads "Allison Bader".

Allison Bader
Auditor in-charge

You may obtain audit reports on the internet at:

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Division of State Audit

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