



Department of Human Services: Basic Health Program Trust Fund – Fiscal Years 2018, 2019, and 2020

September 2021

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Financial Audit Division

The division has authority to audit organizations and programs in the state's executive and judicial branches, metropolitan agencies, several "semi-state" organizations, state-funded higher education institutions, and state-funded programs operated by private organizations.

Each year, the division selects several of these organizations and programs to audit. The audits examine the policies and procedures—called internal controls—of the organizations to ensure they are safeguarding public resources and complying with laws that govern their financial and program operations. In addition, the division annually audits the State of Minnesota's financial statements and the financial statements of three state public pension systems. The primary objective of these financial audits is to assess whether the statements fairly present the organization's financial position according to Generally Accepted Accounting Principles.

The Office of the Legislative Auditor (OLA) also has a Program Evaluation Division. The Program Evaluation Division's mission is to determine the degree to which state agencies and programs are accomplishing their goals and objectives and utilizing resources efficiently.

OLA also conducts special reviews in response to allegations and other concerns brought to the attention of the Legislative Auditor. The Legislative Auditor conducts a preliminary assessment in response to each request for a special review and decides what additional action will be taken by OLA.

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

September 10, 2021

Members
Legislative Audit Commission

Department of Human Services

Jodi Harpstead, Commissioner
Department of Human Services

This report presents the results of our audit of the Department of Human Services (DHS) Basic Health Program (BHP) trust fund expenditures for the period July 2017 through June 2020. The objectives of this audit were to determine whether DHS's BHP trust fund expenditures paid during this three-year period were allowable as described in 42 *CFR*, sec. 600.705(b) and in accordance with other applicable federal requirements.

In DHS's response letter, Commissioner Harpstead disagreed with our conclusion that the department "generally complied" with relevant legal requirements for the BHP Trust Fund, and stated that we found DHS "complied" with legal requirements in our most recent audit of MinnesotaCare eligibility. As we discussed during our exit conference with DHS, this audit of the BHP Trust Fund reflects findings covering a three-year period. This work includes results from our 2020 Single Audit in which we identified a finding with likely questioned costs exceeding \$25,000 and reported the finding pursuant to 2 *CFR* 200.516(a)(3).

This audit was conducted by Valerie Bombach (Audit Director) and Jordan Bjonfald (Audit Coordinator).

We received the full cooperation of the Department of Human Services staff while performing this audit.

Sincerely,

Lori Leysen, CPA
Deputy Legislative Auditor

Valerie Bombach
Audit Director



Table of Contents

	<u>Page</u>
Introduction.....	1
Report Summary	3
Conclusion.....	3
Finding	3
Background.....	5
Basic Health Program Overview.....	5
Financial Activity.....	6
Audit Scope, Objectives, Methodology, and Criteria	6
BHP Trust Fund Expenditures	9
List of Recommendations	11
Agency Response.....	13



Introduction

The Department of Human Services (DHS) is responsible for administering Minnesota's version of a federal Basic Health Program (BHP). BHP—also known as MinnesotaCare—provides health care coverage for adults without children, parents, and children who meet certain eligibility criteria and are not otherwise eligible for certain other publicly funded health care programs. The federal government supports MinnesotaCare through contributions to the state's BHP trust fund. For fiscal years 2018, 2019, and 2020, expenditures from the BHP trust fund totaled between \$356 million and \$395 million annually.

Our audit focused on DHS financial reports and expenditures from the BHP trust fund for state fiscal years 2018, 2019, and 2020. Specifically, we examined whether DHS accurately reported BHP trust fund expenditures to the federal Centers for Medicare and Medicaid Services and spent trust funds for allowable purposes only, in accordance with legal requirements.

Auditors focus on internal controls as a key indicator of whether an organization is well managed. Internal controls are the policies and procedures that management establishes to govern how an organization conducts its work and fulfills its responsibilities. A well-managed organization has strong controls across all of its internal operations. If effectively designed and implemented, controls help ensure, for example, that inventory is secured, computer systems are protected, laws and rules are complied with, and authorized personnel properly document and process financial transactions.

Minnesota Law Mandates Internal Controls in State Agencies

State agencies must have internal controls that:

- Safeguard public funds and assets and minimize incidences of fraud, waste, and abuse; and
- Ensure that agencies administer programs in compliance with applicable laws and rules.

The law also requires the commissioner of the Department of Management and Budget to review OLA audit reports and help agencies correct internal control problems noted in those reports.

— *Minnesota Statutes 2020, 16A.057*



Report Summary

Conclusion

We concluded that the Department of Human Services (DHS) accurately reported BHP trust fund expenditures on its financial reports to the Centers for Medicare and Medicaid Services. DHS also generally complied with federal requirements to spend BHP trust funds for allowable purposes only, with some exceptions.

Legal Compliance



Finding

Finding 1. DHS generally complied with federal requirements to ensure BHP trust funds were used for allowable purposes only, although some funds were expended for individuals who were ineligible for the program. (p. 9)



Background

Basic Health Program Overview

The Basic Health Program (BHP) was created by the Affordable Care Act to provide health benefits for low-income residents who would otherwise be eligible to purchase coverage through the Health Insurance Marketplace.¹ Effective January 1, 2015, the Department of Human Services (DHS) transitioned its existing MinnesotaCare program to a Basic Health Program. DHS oversees and administers MinnesotaCare, which is funded by federal and state dollars, as well as enrollee-paid premiums.²

To manage BHP funds and account for program expenditures, DHS established a required BHP trust fund within the state's fund structure.³ On a quarterly basis, the federal Centers for Medicare and Medicaid Services (CMS) deposits federal funds into the BHP trust fund. DHS may also deposit non-federal funds into the BHP trust fund; however, DHS manages enrollee-paid premiums through other state processes.⁴

To obtain federal funding, DHS must provide an estimated number of BHP enrollees for the upcoming quarter to CMS. CMS uses this estimate to calculate the amount of funds to deposit in the trust fund. At the end of each quarter, DHS must provide the actual number of BHP enrollees for the prior quarter to CMS. CMS then uses the actual enrollment to calculate a retrospective adjustment to the previous quarter's deposit.⁵

According to federal law, BHP trust funds may only be used for the following purposes:

- To reduce premiums and cost sharing for eligible individuals enrolled in standard health plans under BHP; or
- To provide additional benefits for individuals enrolled in standard health plans as determined by the state.⁶

Federal regulations also require that DHS obtain an independent audit of the BHP trust fund to determine whether expenditures were allowable.⁷ This audit addressed that requirement.

¹ 42 *CFR*, sec. 600.1 (2020).

² *Minnesota Statutes* 2020, 256L.02, subds. 2 and 5; and 256L.15, subd. 1.

³ 42 *CFR*, sec. 600.705(a) (2020).

⁴ 42 *CFR*, sec. 600.705(b) (2020), which states “the State may deposit non-Federal funds, including such funds from enrollees, providers or other third parties for standard health coverage, into its BHP trust fund. Upon deposit, such funds will be considered BHP trust funds, must remain in the BHP trust fund and meet the standards described in [42 *CFR*, secs. 600.705(c) and (d)].”

⁵ 42 *CFR*, sec. 600.145(f)(4); and 42 *CFR*, sec. 600.610(c) (2020).

⁶ 42 *U.S. Code*, sec. 18051(d)(2) (2020); and 42 *CFR*, secs. 600.705(b) and (c) (2020).

⁷ 42 *CFR*, sec. 600.710(c) (2020), requires an “independent audit of BHP trust fund expenditures, consistent with the standards set forth in chapter 3 of the Government Accountability Offices’ Government Auditing Standards, over a 3-year period to determine that the expenditures...were allowable...”

Financial Activity

During fiscal years 2018, 2019, and 2020, DHS received between \$270 and \$464 million annually in federal funds that were deposited into the BHP trust fund, shown in Exhibit 1. There were no state funds deposited in the trust fund during this period due to a surplus of federal funds, which were allowed to carry over from year to year. During this same period, BHP trust fund expenditures totaled between \$356 and \$395 million annually. All of these expenditures were for payments to managed care organizations or health care providers on behalf of individuals enrolled in MinnesotaCare, and DHS did not record any unallowable expenditures—such as administrative expenses—to the fund.

Exhibit 1: Basic Health Program Trust Fund Contributions and Expenditures, Fiscal Years 2018 through 2020

	Fiscal Year ^a		
	2018	2019	2020
Contributions			
Federal	\$461,085,169	\$437,698,814	\$265,930,912
State ^b	0	0	0
Interest	3,124,980	5,644,315	4,719,891
	\$464,210,149	\$443,343,129	\$270,650,803
Expenditures ^c	\$392,938,339	\$356,489,104	\$395,517,491

^a DHS reports expenditure data to CMS on a calendar year basis. We conducted our audit on a fiscal year basis.

^b 42 *CFR*, sec. 600.705(e) allows the State to maintain a surplus of funds and carry over unexpended funds from year to year. Expenditures from this surplus must be made in accordance with 42 *CFR*, secs. 600.705(b) and (c). Due to a surplus of federal funds during this period, the state did not deposit non-federal contributions into the trust fund.

^c All BHP expenditures were payments to managed care organizations or health care providers on behalf of individuals enrolled in BHP. DHS did not record any administrative expenditures to the BHP trust fund.

SOURCE: Department of Human Services.

Audit Scope, Objectives, Methodology, and Criteria

The Office of the Legislative Auditor conducted this audit to determine whether DHS's BHP trust fund expenditures during the three-year audit period were allowable as described in 42 *CFR*, secs. 600.705(c) and (d), and in accordance with other applicable federal requirements.⁸ We also verified whether the BHP expenditures reported to CMS were accurate. The audit scope and period under examination was from July 2017 through June 2020.

⁸ We tested the other federal requirements under 42 *CFR*, sec. 600, Subpart D (Eligibility and Enrollment) and Subpart G (Payments to States) (2020).

We conducted this audit as a part of our Fiscal Year 2020 Single Audit of federal expenditures; we also relied on prior audits that we completed during our audit period.⁹ This report summarizes the results of our work.

Basic Health Program Trust Fund Expenditures

This audit assessed whether DHS accurately reported BHP trust fund expenditures to the federal government and spent BHP trust funds for allowable purposes only. OLA designed its work to address the following questions:

- Did DHS accurately report BHP trust fund expenditures to the federal government?
- Did DHS comply with federal requirements to spend BHP trust funds for allowable purposes only?

To answer these questions, we performed the following work during our fiscal year 2020 Single Audit.¹⁰ OLA interviewed staff from DHS to gain an understanding of BHP. We reviewed the annual reports DHS submitted to CMS during our audit period and compared this information to the state's accounting system to verify whether DHS accurately reported expenditures to CMS. We reviewed summary level BHP expenditures from fiscal years 2018, 2019, and 2020, to analyze whether expenditures were allowable according to federal requirements. We then tested a random sample of 60 of 153,580 eligibility determinations made by DHS during Fiscal Year 2020 to determine whether DHS accurately determined eligibility and enrolled the individual in the correct eligibility category. Finally, we reviewed enrollment data DHS submitted to CMS for all quarters in fiscal years 2018, 2019, and 2020.

For our Single Audit work, we noted that DHS submitted *prospective* enrollment data to CMS during the audit period. However, due to deficiencies in obtaining data from their IT systems, DHS did not submit *actual* enrollment for nearly all quarters during the audit period and thus, CMS was unable to determine the quarterly retrospective adjustment to DHS's BHP funds. CMS was aware that DHS did not submit actual enrollment data and approved a method and process for DHS to submit such data beginning in April 2021. The lack of timely actual enrollment submissions by DHS during our audit scope limited our ability to test whether DHS submitted accurate enrollment data to CMS.

We also relied on previous audits related to BHP that OLA issued during the three-year audit period. First, OLA issued a report on MinnesotaCare (BHP) eligibility that

⁹ Office of the Legislative Auditor, Financial Audit Division, *Financial and Compliance Report on Federally Assisted Programs* (St. Paul, 2021); Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility: July 2019 through March 2020* (St. Paul, 2021); Office of the Legislative Auditor, Financial Audit Division, *Minnesota Eligibility Technology System* (St. Paul, 2020); and Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility* (St. Paul, 2018).

¹⁰ Office of the Legislative Auditor, Financial Audit Division, *Financial and Compliance Report on Federally Assisted Programs*, (St. Paul, 2021).

included determinations made between July 1, 2019, and March 31, 2020.¹¹ In that audit, we obtained and reviewed a sample of 270 MinnesotaCare enrollees from a population of 125,221 enrollees to test whether DHS determined eligibility correctly using data and information it had at the time of its review.

In April 2020, OLA issued an internal control and compliance report on the Minnesota Eligibility Technology System (METS).¹² In that audit, we focused on how METS processes applications and whether METS performed the appropriate steps to determine eligibility for all healthcare programs, including MinnesotaCare (BHP) between January 2018 and December 2019. As part of this audit, we analyzed METS data to verify the extent to which METS made appropriate eligibility decisions and whether DHS information systems correctly processed enrollee eligibility status.

In October 2018, OLA issued a report on MinnesotaCare (BHP) Eligibility that covered calendar year 2017.¹³ In that audit, we obtained and reviewed a sample of 153 MinnesotaCare enrollees from a population of 131,746 enrollees to test whether DHS determined eligibility correctly using data and information it had at the time of its review.

We conducted this performance audit in accordance with generally accepted government auditing standards.¹⁴ 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. When sampling was used, we used a sampling method that complies with generally accepted government auditing standards and that supports our findings and conclusions. That method does not, however, allow us to project the results we obtained to the populations from which the samples were selected.

We assessed internal controls against the most recent edition of the internal control standards, published by the U.S. Government Accountability Office.¹⁵ To identify legal compliance criteria for the activity we reviewed, we typically examine state and federal laws, state administrative rules, state contracts, and policies and procedures established by the departments of Management and Budget and Administration.

¹¹ Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility: July 2019 through March 2020* (St. Paul, 2021).

¹² Office of the Legislative Auditor, Financial Audit Division, *Minnesota Eligibility Technology System* (St. Paul, 2020).

¹³ Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility* (St. Paul, 2018).

¹⁴ Comptroller General of the United States, Government Accountability Office, *Government Auditing Standards* (Washington, DC, December 2011).

¹⁵ Comptroller General of the United States, Government Accountability Office, *Standards for Internal Control in the Federal Government* (Washington, DC, September 2014). In September 2014, the State of Minnesota adopted these standards as its internal control framework for the executive branch.

BHP Trust Fund Expenditures

We concluded that the Department of Human Services (DHS) accurately reported BHP trust fund expenditures on its financial reports to the Centers for Medicare and Medicaid Services. DHS also generally complied with federal requirements to spend BHP trust funds for allowable purposes only, with some exceptions.

BHP trust funds may only be used for the following purposes: (1) to reduce premiums and cost sharing for eligible individuals enrolled in standard health plans under BHP; or (2) to provide additional benefits for individuals enrolled in standard health plans as determined by the state.¹⁶ Under these requirements, DHS may not, for example, use BHP trust funds to cover internal administrative expenses.¹⁷

Finding 1

DHS generally complied with federal requirements to ensure BHP trust funds were used for allowable purposes only, although some funds were expended for individuals who were ineligible for the program.

Through our audit testing, we found that all DHS expenditures out of the BHP trust fund during our audit period were used for allowable purposes; that is, to reduce premiums and cost sharing for individuals enrolled in standard health plans under BHP. However, among our sample testing, a small number of individuals who received health care coverage were not actually eligible for the program. Specifically, in one audit we found that DHS did not accurately determine eligibility for 2 of 60 sample enrollees (about 3 percent) that we tested.¹⁸ For one of these two sample enrollees, the caseworker erred in the determination as part of a manual verification process; for the other sample enrollee, the case was not properly closed in DHS's Medicaid Management Information System (MMIS) when the individual was no longer eligible for the program. DHS paid capitation payments to managed care organizations totaling \$5,313 for these two enrollees. In a separate audit, we found that DHS did not accurately determine eligibility for 4 of 270 sample enrollees (about 1 percent) that we tested.¹⁹ For all four of these enrollees, DHS determined the enrollee was eligible; however, the enrollee should have been determined ineligible based on the enrollee-provided documentation. DHS paid \$4,564 in capitation payments to managed care organizations for these four enrollees.

Additionally, we found that DHS and Minnesota IT Services did not ensure that the eligibility status of all enrollees accurately transferred from the state's Minnesota Eligibility Technology System (METS) to MMIS, which resulted in unallowable

¹⁶ 42 *CFR*, secs. 600.705(b) and (c) (2020).

¹⁷ 42 *CFR*, sec. 600.710(d) (2020).

¹⁸ Office of the Legislative Auditor, Financial Audit Division, *Financial and Compliance Report on Federally Assisted Programs* (St. Paul, 2021), 105-107.

¹⁹ Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility: July 2019 through March 2020* (St. Paul, 2021), 15.

expenditures. In our audit of MinnesotaCare eligibility during 2017, we tested 125 randomly selected MinnesotaCare enrollees and 76 MinnesotaCare enrollees with non-Minnesota addresses and identified 20 instances in which METS correctly ended eligibility; however, key data were not processed correctly and were not accepted by MMIS to complete the case closures.²⁰ As a result of this system deficiency, DHS made payments totaling \$1,844 to managed care organizations for these individuals until the department identified the discrepancy and properly ended MinnesotaCare coverage. In a separate technology audit of METS in 2019, we concluded that this process deficiency was still ongoing, although DHS had taken steps to identify and manually resolve the system mismatch errors.²¹ In a second audit of MinnesotaCare eligibility in 2019 and 2020, we found that for 3 of 270 sample enrollees we tested, DHS did not ensure that METS closed the cases and sent the closure data to MMIS.²² As a result of these three errors, DHS made \$1,598 in capitation payments to managed care organizations for these enrollees after their eligibility had ended.

RECOMMENDATION

DHS should ensure that BHP trust funds are used for allowable purposes only, in accordance with federal requirements.

²⁰ Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility* (St. Paul, 2018), 13.

²¹ Office of the Legislative Auditor, Financial Audit Division, *Minnesota Eligibility Technology System* (St. Paul, 2020), 22.

²² Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility: July 2019 through March 2020* (St. Paul, 2021), 16.

List of Recommendations

- DHS should ensure that BHP trust funds are used for allowable purposes only, in accordance with federal requirements. (p. 10)





Minnesota Department of Human Services
Elmer L. Andersen Building
Commissioner Jodi Harpstead
Post Office Box 64998
St. Paul, Minnesota 55164-0998

September 7, 2021

James Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the draft report issued by your office, titled *Department of Human Services: Basic Health Program Trust Fund*. We appreciate the opportunity to discuss the excellent work done by our staff to manage the Basic Health Care (BHP) Trust Fund.

We are pleased that the audit found that we accurately reported BHP trust fund expenditures to the Centers for Medicare & Medicaid Services (CMS) and “generally complied” with federal requirements to spend BHP trust funds for allowable purposes. This report relied on four previous MinnesotaCare eligibility audits, released from 2018 to 2021, to determine whether DHS correctly processed eligibility. We previously reviewed and responded to these audits’ findings and developed corrective action plans to reduce the eligibility errors they identified.

MinnesotaCare fulfills a critical need in our state’s health care infrastructure, serving about 100,000 people every year. The program provides health care coverage to Minnesotans who earn too much to qualify for Medicaid but not enough to afford other health insurance. Enrollees pay premiums and very low out-of-pocket costs for coverage that is typically broader than insurance available on the individual market, including dental, vision and comprehensive behavioral health services. DHS administers cases where all household members are enrolled in MinnesotaCare, while Minnesota counties manage mixed household cases where some household members are enrolled in MinnesotaCare and others are enrolled in Medical Assistance.

The most recent MinnesotaCare eligibility audit, released in August 2021, found accurate eligibility determinations for 99% of tested enrollees.¹ We also significantly reduced the number of system

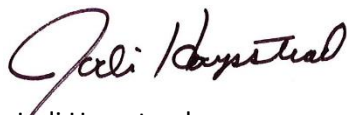
¹ Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility: July 2019 through March 2020* (St. Paul, 2021)

interface errors, including situations where the Minnesota Eligibility Technology System (METS) correctly ended eligibility but the Medicaid Management Information System (MMIS) did not accept data to close coverage in a timely fashion. We are pleased with the much lower rate of MMIS closure failures – only about 1% of the samples in your most recent audit, compared with about 10% in your previous audit.² We continue to monitor an internal report that identifies potential mismatches between the two systems and to correct cases as needed.

Finally, I'd like to comment on the use of the Legal Compliance rating ("Did Not Comply", "Generally Did Not Comply", "Generally Complied" and "Complied"). This audit summarizes four previous audits that found that DHS correctly determined eligibility for most of the samples tested, based on the information available at the time and in accordance with the requirements of law. While this audit concluded that we "Generally Complied," the most recent MinnesotaCare eligibility audit gave us a higher rating of "Complied." We look to audits to help us improve compliance, but this is more challenging when our rating drops without any new findings. The Legal Compliance rating system appears to use standards that are not clearly defined.

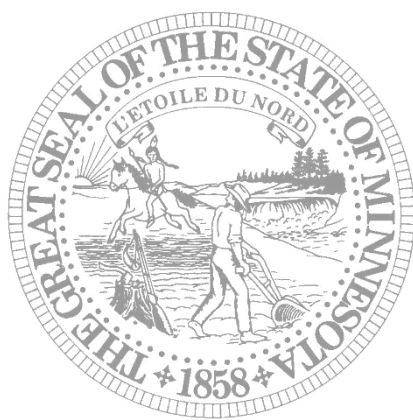
Thank you again for the professionalism and dedicated efforts of your staff during this audit. DHS will continue to work in strong partnership with MNIT and county agencies to ensure accurate MinnesotaCare eligibility determinations. Our policy and practice is to follow up on all audit findings to evaluate our progress toward resolving them. If you have further questions, please contact Gary L. Johnson, Internal Audits Office director, at (651) 431-3623.

Sincerely,

A handwritten signature in dark ink, appearing to read "Jodi Harpstead". The signature is fluid and cursive, with the first name "Jodi" being more prominent than the last name "Harpstead".

Jodi Harpstead
Commissioner

² Office of the Legislative Auditor, Financial Audit Division, *MinnesotaCare Eligibility* (St. Paul, 2018)





Financial Audit Staff

James Nobles, *Legislative Auditor*
Lori Leysen, *Deputy Legislative Auditor*

Education and Environment Audits

Lori Leysen, *Audit Director*
Sarah Bruder
Kelsey Carlson
Shannon Hatch
Heather Rodriguez
Kris Schutta
Emily Wiant

General Government Audits

Tracy Gebhard, *Audit Director*
Tyler Billig
Scott Dunning
Daniel Hade
Lisa Makinen
Erick Olsen
Sarah Olsen
Valentina Stone

Health and Human Services Audits

Valerie Bombach, *Audit Director*
Jordan Bjonfald
Kayla Borneman
Zachary Kempen
Crystal Nibbe
Duy (Eric) Nguyen

Information Technology Audits

Mark Mathison, *Audit Director*
Joe Sass

Safety and Economy Audits

Scott Tjomsland, *Audit Director*
Ryan Baker
Bill Dumas
Gabrielle Johnson
Alec Mickelson
Zakeeyah Taddese
Zach Yzermans

For more information about OLA and to access its reports, go to: www.auditor.leg.state.mn.us.

To offer comments about our work or suggest an audit, evaluation, or special review, call 651-296-4708 or e-mail legislative.auditor@state.mn.us.

To obtain printed copies of our reports or to obtain reports in electronic ASCII text, Braille, large print, or audio, call 651-296-4708. People with hearing or speech disabilities may call through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.



Printed on Recycled Paper



OFFICE OF THE LEGISLATIVE AUDITOR
CENTENNIAL OFFICE BUILDING – SUITE 140
658 CEDAR STREET – SAINT PAUL, MN 55155