



FINANCIAL AUDIT DIVISION REPORT

**Department of
Human Services**

**Information Verification in
Eligibility Determinations**

Special Review

March 26, 2013

Report 13-05

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 26, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Lucinda Jesson, Commissioner
Department of Human Services

This report presents the results of our special review of the Department of Human Services' compliance with federal and state requirements to use electronic file matches to verify information provided by public assistance participants and its assessment of the effectiveness of electronic file matches to validate reported income amounts for fiscal years 2012 and 2013 (through February 2013).

This special review was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Laura Wilson, CPA, CISA (Auditor-in-Charge), Tyler Billig, CPA, and Jordan Bjonfald, CPA (Auditors).

We received the full cooperation of the Department of Human Services' staff while performing this special review.

James R. Nobles
Legislative Auditor

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Background

In December 2012, the Office of the Legislative Auditor (OLA) decided to follow up on previous OLA concerns about the process used by the Minnesota Department of Human Services to verify social security numbers and incomes reported by recipients of the state's Medical Assistance program. Our review focused on Medical Assistance and other public assistance programs, including the MinnesotaCare program, a state-created, subsidized health insurance program funded from a state tax on health care providers, federal matching funds, and enrollee premiums. We are reporting the result of our review separate from other findings that may emerge from our audit of the department's public assistance programs because we think there is a need for the department to resolve long-standing deficiencies noted in this and previous reports.

Findings

- The Department of Human Services did not comply with federal and state requirements to verify the social security numbers and income reported by participants in MinnesotaCare. ([Finding 1, page 5](#))
- The Department of Human Services did not effectively monitor resolution of income discrepancies for several public assistance programs. ([Finding 2, page 6](#))

Audit Scope

We audited the Department of Human Services' compliance with federal and state requirements to verify reported social security numbers and income through electronic file matches with other government data for fiscal years 2012 and 2013 (through February 2013).

Department of Human Services

Background

In December 2012, the Office of the Legislative Auditor (OLA) decided to follow up on previous OLA concerns about the process used by the Minnesota Department of Human Services to verify social security numbers and incomes reported by recipients of the state's Medical Assistance program. Our review focused on Medical Assistance and other public assistance programs, including the MinnesotaCare program, a state-created, subsidized health insurance program funded from a state tax on health care providers, federal matching funds, and enrollee premiums. We are reporting the result of our review separate from other findings that may emerge from our audit of the department's public assistance programs because we think there is a need for the department to resolve long-standing deficiencies noted in this and previous reports.

The department requires applicants for medical, cash, and food benefits to provide their social security numbers and to report their income. Federal regulations require the department to verify this information to ensure program eligibility and deter fraud.¹ In addition, state statutes require the department to use electronic file matches as the "primary method" to verify income reported by MinnesotaCare participants.²

The federal government requires that the state resolve 80 percent of its social security number and income discrepancies within 45 days of detection.³ According to the department's records, county eligibility workers routinely met that requirement, averaging a resolution rate of 88 percent for fiscal years 2010, 2011, and 2012. For the Medical Assistance program, the federal government restricts the department from pursuing recovery of overpayments unless those claims are supported by a court order.⁴

In 2003, the Office of the Legislative Auditor evaluated the MinnesotaCare program and noted that the department did not use electronic file matching to verify income for MinnesotaCare participants.⁵ At the time, the department asserted that the development of a planned web-based computer system would resolve the concern. The new system, referred to as HealthMatch, would provide automated eligibility determinations for nearly all its health care programs, including Medical Assistance and MinnesotaCare, and would include the ability to electronically verify income to other government databases. However, as noted

¹ Social Security Act, Section 1137 (United States Code 1320b-7).

² *Minnesota Statutes* 2012, 256L.05, subd. 2.

³ 42 Code of Federal Regulations, section 435.952, and 45 Code of Federal Regulations, section 205.56.

⁴ Social Security Act, section 1917(a).

⁵ Office of the Legislative Auditor, Program Evaluation Division Report 03-03, *MinnesotaCare*, issued January 21, 2003.

in a follow-up evaluation in 2007, HealthMatch's development took much longer than expected due to increases in the system's scope and missteps by the contractor and the department, among other factors.⁶ The evaluation noted that successful implementation of HealthMatch still faced serious risks and that a first version of the system was not likely to be released before 2009—four years later than initially expected. Ultimately, in 2008, after spending about \$40 million, the department cancelled the HealthMatch contract and abandoned the project.

In 2005, the Office of the Legislative Auditor conducted an information technology audit focused on computerized file matches designed to validate the social security numbers and income of program recipients.⁷ Among other weaknesses, the report noted that the department was not resolving 80 percent of the file match discrepancies within 45 days, as required by federal regulations, and that it was not analyzing how county eligibility workers resolved the discrepancies or quantifying the financial impact of benefits provided to ineligible Medical Assistance recipients.

Objectives, Scope, and Methodology

The objectives of this special review were to answer the following questions for fiscal years 2012 and 2013 (through February 2013):

- Did the Department of Human Services comply with federal and state requirements to use electronic file matches to verify information provided by MinnesotaCare participants, including social security numbers and reported income amounts?
- Did the Department of Human Services effectively use discrepancy information resulting from electronic file matches to limit public assistance benefits to eligible recipients?

To answer these questions, we interviewed department staff to discuss the income verification process and reviewed documentation supporting income verification discrepancies and records related to resolution of those discrepancies.

The following *Findings and Recommendations* provide further explanation about compliance issues with federal and state requirements.

⁶ Office of the Legislative Auditor, Program Evaluation Division Report, *Follow-up Review: MinnesotaCare Eligibility Determination*, issued April 12, 2007.

⁷ Office of the Legislative Auditor, Financial Audit Division Report 05-13, *Department of Human Services Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp Programs - Eligibility Data Validation Controls*, issued February 24, 2005.

Findings and Recommendations

The Department of Human Services did not comply with federal and state requirements to verify the social security numbers and income reported by participants of MinnesotaCare.

Finding 1

The department did not verify social security numbers or income reported by participants of the MinnesotaCare program. The federal government requires the state to have a data exchange process that cross-checks social security numbers and income for recipients of federal programs.⁸ In addition, state statute requires the department to use electronic file matches as the “primary method” to verify income reported by MinnesotaCare participants.⁹ The department did not include MinnesotaCare participants in the file matches it performed for other cash, food, and medical benefit programs because it could not easily integrate MinnesotaCare data, recorded on one computer system, with the information for those programs, recorded on another computer system.

Although department management has known since at least 2003 that it was not in compliance with the federal or state file match requirements for MinnesotaCare participants, it did not develop a way to effectively validate reported social security numbers and income to other government data, such as from the Internal Revenue Service, Social Security Administration, and the Department of Employment and Economic Development. Department management had believed HealthMatch would fix the problem; the department now anticipates it will comply with the file matching requirements through implementation of the Minnesota Health Insurance Exchange.

During fiscal year 2012, the state paid about \$526 million for medical benefits on behalf of about 129,000 participants in the MinnesotaCare program; the federal government funded about 44 percent of the costs, or \$234 million.

Recommendation

- *The department should verify social security numbers and income reported by MinnesotaCare participants to other government data.*

⁸ Social Security Act, section 1137; 42 CFR sections 435.948 and 435.953.

⁹ *Minnesota Statutes* 2012, 256L.05, subd. 2.

Finding 2

The Department of Human Services did not effectively monitor resolution of income discrepancies for several public assistance programs.

The department did not effectively monitor how county eligibility workers resolved discrepancies identified by electronic file matches of reported income amounts to other government data for participants of Medical Assistance, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance programs. The number of discrepancies between information reported by program participants and data recorded in federal and state databases rose from about 165,000 in fiscal year 2010 to nearly 240,000 in fiscal year 2012. Although reports indicated that the department complied with federal requirements to resolve at least 80 percent of the discrepancies within 45 days, the department had not monitored whether the file matching process was effective in ensuring that participants were eligible for the benefits they received.

Following are some deficiencies in the file matching and discrepancy resolution process:

- The department did not assess how effective the file matching process was in identifying valid discrepancies that resulted in changes to benefits. Other than tracking that the discrepancy was resolved, to show that it had satisfied the federal requirement, it did not measure the number of discrepancies found to be invalid (resulting in no change to the benefits provided) or the number of valid discrepancies that resulted in benefit changes. The department had not adjusted criteria used in the file matching process since 2005.¹⁰
- Until recently, the department did not monitor whether county eligibility workers took appropriate action to determine the validity of the discrepancy and to adjust, as necessary, a participant's eligibility.¹¹ For example, the department did not use resolution data to identify county eligibility workers who had higher than normal rates of invalid discrepancies, perhaps indicating a lack of effort to appropriately resolve the discrepancy and resulting in a continuation of benefits to ineligible recipients.
- Also, for the Medical Assistance program, the department did not effectively quantify the benefit overpayments identified by valid file matching discrepancies. Although the department required county eligibility workers to report Medical Assistance overpayments identified as a result of the file matching process, the department did not know whether this information was complete or accurate. The department did

¹⁰ With federal approval, 42 Code of Federal Regulations, section 435.948, allows the department to establish discrepancy thresholds for each of its verification data matches.

¹¹ In November 2012, the department began a study on the income verification process. At the time of this report, the department had not completed that study.

not use the information to monitor if counties assessed whether valid discrepancies were attempts by program participants to fraudulently obtain benefits.

Recommendation

- *The department should assess the effectiveness of the electronic file matching process and county eligibility workers' resolution of discrepancies to verify the eligibility of public assistance and medical program participants.*
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Minnesota Department of **Human Services**

March 20, 2013

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

Dear Mr. Nobles:

Thank you for the opportunity to review and respond to the recommendations included in the draft audit report documenting your special review of the Department of Human Services' (department) compliance with federal and state requirements to use electronic file matches to verify information provided by public assistance program recipients. We believe this report identifies critical issues facing the department as we work to accurately determine eligibility for Minnesota's public assistance programs.

The department agrees with and supports the findings and recommendations of this report. The key weaknesses found in our processes to verify income for applicants of our public assistance programs are issues we take very seriously. We will work diligently to correct them.

The Affordable Care Act requires states to have an online eligibility application process for their Medicaid programs starting in January 2014. States must rely on electronic verification sources to the greatest extent possible in determining eligibility, and must use the verification available through the federal data hub sponsored by the Secretary of the U.S. Department of Health and Human Services. To meet these requirements the department is building a new IT platform. The department is working to determine whether the federal hub will provide all needed verification or whether continued use of additional sources through the Income Eligibility Verification System (IEVS) will be necessary.

Thank you again for the work of your office and the professionalism shown by your staff in conducting this special review.

Sincerely,

Lucinda E. Jesson
Commissioner

Enclosure

Department of Human Services
Response to the Legislative Audit Special Review and Report on
Compliance with Income Eligibility Verification System

Audit Finding #1

The Department of Human Services did not comply with federal and state requirements to verify the social security numbers and income reported by participants of MinnesotaCare.

Audit Recommendation #1

The department should verify social security numbers and income reported by MinnesotaCare participants to other government data.

Agency Response to Recommendation #1

The department agrees with the finding and recommendation. The department will work to develop the needed IT capacity and related policies and procedures in this area.

Person Responsible: Karen Gibson, Director of Health Care Eligibility and Access
Estimated Completion Date: January 1, 2014

Audit Finding #2

The Department of Human Services did not effectively monitor resolution of income discrepancies for several public assistance programs.

Audit Recommendation #2

The department should assess the effectiveness of the electronic file matching process and county eligibility workers' resolution of discrepancies to verify the eligibility of public assistance and medical program participants.

Agency Response to Recommendation #2

The department agrees with the finding and recommendation. We will evaluate the income eligibility verification process and procedures, including thresholds used for identifying discrepancies, and make the necessary adjustments. Additionally, we will work to identify and implement controls that provide proper oversight on the county's efforts to resolve identified income discrepancies.

Person Responsible: Erin Sullivan-Sutton, Assistant Commissioner for Children and Family Services
Scott Leitz, Assistant Commissioner for Health Care Administration
Estimated Completion: September 30, 2013