



REPORT OF
THE
STATE AUDITOR

**Eligibility Determinations
for Federal Benefit Programs**

**Performance Audit
April 2006**

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Members of the Legislative Audit Committee:

This report contains the results of a performance audit of Eligibility Determinations for Federal Benefit Programs for the period September 1, 2004 through June 30, 2005. The audit was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The State Auditor contracted with BKD, LLP to conduct a portion of the audit. The audit was performed in accordance with Generally Accepted Government Auditing Standards. The report presents BKD, LLP's and the Office of the State Auditor's combined observations, findings, and recommendations, and the responses of the Department of Human Services, Department of Health Care Policy and Financing, and the Office of the Colorado Benefits Management System. Findings and recommendation numbers 1 through 13 were prepared by BKD, LLP; findings and recommendation numbers 14 through 18 were prepared by the Office of the State Auditor.

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JOANNE HILL, CPA
State Auditor

**Eligibility Determinations for Federal Benefit Programs
Performance Audit
April 2006**

Authority, Purpose, and Scope

This performance audit of Eligibility Determinations for Federal Programs was conducted pursuant to Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit work, performed from October through December 2005, was conducted in accordance with generally accepted government auditing standards.

The Office of the State Auditor (OSA) is responsible for the annual audit of the State of Colorado's financial statements and for the State's annual federal Single Audit, which assesses the State's internal control and compliance with respect to federal laws and regulations. Because of the implementation of the Colorado Benefits Management System (CBMS) during Fiscal Year 2005, the OSA contracted with BKD, LLP to perform additional audit work for the Medicaid, Food Stamps, and Temporary Assistance for Needy Families (TANF) programs specifically designed to review eligibility determinations and benefit payments made after CBMS implementation. The performance audit reviewed a sample of payments to beneficiaries and related county case files. The sample consisted of 96 payments for each of the three programs, or a total of 288 payments that occurred during Fiscal Year 2005 after the implementation of CBMS, or from September 1, 2004 through June 30, 2005. The performance audit also included visits to seven counties to interview county employees, observe the counties' systems, and review backlog information at the county level.

In addition, the OSA conducted audit work related to CBMS and eligibility determination as part of the Fiscal Year 2005 financial audit and Single Audit at the Department of Health Care Policy and Financing and the Department of Human Services. Findings and recommendations related to CBMS from these audits is also included in this report.

We acknowledge the assistance and cooperation extended by management and staff at the Department of Health Care Policy and Financing, the Department of Human Services, the Office of Colorado Benefits Management System, and the county departments of social services.

Overview

In Colorado, the responsibility for determining recipient eligibility for medical or public assistance benefits is shared between the State and the counties. Counties are responsible for administering the benefit application process, entering the required data for eligibility determination, and approving the eligibility determinations. The State is responsible for supervising the counties' administration of medical and public assistance programs including Medicaid, Food Stamps, and Temporary Assistance for Needy Families (TANF).

The Department of Health Care Policy and Financing (HCPF) is the state agency responsible for developing financing plans and policy for publicly funded health care programs. The principal program administered by HCPF is the Medicaid program, which provides health services to eligible needy persons. In Fiscal Year 2005, Medicaid had benefit expenditures of \$1.9 billion and an average monthly caseload of about 402,800 beneficiaries.

The Department of Human Services (DHS) is the state agency responsible for administering the State's public assistance programs, including the federal Food Stamps program and the TANF program, known as "Colorado Works." In Fiscal Year 2005, the Department of Human Services provided \$307 million in benefits under the Food Stamp program to an average monthly caseload of approximately 95,000 households; the Department provided approximately \$60.4 million in TANF benefits to an average monthly caseload of about 15,100 households.

On September 1, 2004, the Department of Health Care Policy and Financing and the Department of Human Services implemented the Colorado Benefits Management System (CBMS). CBMS is intended to provide one unified system for data collection and eligibility determination for 92 HCPF and DHS programs within 12 high-level program groups, including Medicaid, Food Stamps, and TANF. CBMS was developed jointly by HCPF and DHS. The State is responsible for the administration and proper functioning of the system and for monitoring eligibility determinations made by the counties.

Effective June 1, 2005, the Governor issued an Executive Order to establish the *Governor's Office of the Colorado Benefits Management System*. According to the Executive Order, the Office of CBMS (Office) is accountable for the overall control of CBMS from a direction, planning, management, and delivery perspective.

Performance Audit: Key Audit Findings

Eligibility Determination Processes

We identified a number of areas where the State needs to improve its operations and internal controls over eligibility determination processes for the Medicaid, Food Stamps and TANF programs. Overall, the results from our sample testing were:

- 69 of the 96 Food Stamp payments in our statistically-valid sample (72 percent of payments sampled) contained at least one error; for the 69 payments containing errors we identified questioned costs of \$4,500 out of the total sampled costs of \$22,507 (20 percent of costs). With total Food Stamp benefit payments for the 10-month period tested of \$256 million and average number of recipient households per month at approximately 95,000, the risk to the State is significant. From the perspective of recipients, significant error rates indicate substantial risk of over or underpayments. From the perspective of the State, federal recoveries could be substantial and the risk of fraud is high.
- 24 of the 96 Temporary Assistance for Needy Families (TANF) payments in our statistically-valid sample (25 percent) contained at least one error; for the 24 payments containing at least one error, we identified questioned costs of \$4,783 out of the total sampled costs of \$24,027 (20 percent of costs). With total TANF benefit payments for the 10-month period tested of \$49 million and average number of recipient households per month at 15,127, the risk to the State is significant.
- 39 of the 96 payments in our sample (41 percent) contained at least one error; for the 39 payments with at least one error we identified questioned costs of \$156,984 out of the total sampled costs of \$538,381 (29 percent of costs). For Medicaid, we selected a stratified sample of 96 payments from the population of payments because of the large dollar range of claims paid. With total Medicaid claims paid for the 10-month period tested of over \$1.6 billion, the risk to the State is significant.

In August 2004, the Department of Human Services issued an administrative order to county departments of social services that benefits were to continue to be paid to those recipients receiving benefits at the time of CBMS implementation. This order was issued to allow for all existing cases to be reviewed and for the input of additional data required by CBMS. This process is referred to as “cleansing.” This order was subsequently reinforced by the courts under a lawsuit filed against the State. At the request of the Departments, we provided a breakdown regarding the errors attributable to cases that had been cleansed versus the errors attributable to cases that had not been cleansed but were paid under order. For Food Stamps and TANF, the error rates were 14 percent and 12 percent of payments tested, respectively, on cases that had been cleansed prior to payment. These error rates are still unacceptably high. For Medicaid, the percentage of questioned costs on payments tested for cases that had been cleansed was significantly lower at 3 percent.

We identified a number of factors that contributed to the errors identified above. These included:

- **Lack of controls over data input.** We identified 35 (20 TANF and 15 Food Stamps) instances in which caseworkers either entered an incorrect effective begin date or failed to enter an effective begin date in CBMS. As a result, clients in our sample were overpaid a total of \$1,961 (\$1,329 for TANF and \$632 for Food Stamps) and one Food Stamp client was underpaid \$118. We also identified 19 instances resulting in about \$2,100 in Food Stamps overissuances and \$60 in Food Stamps underissuances in which caseworkers either entered income incorrectly into CBMS, manually calculated or prorated an amount instead of using the automated calculation within CBMS, or did not enter the income.
- **System-related problems that resulted in incorrect benefit issuance.** First, in certain instances, when a caseworker made changes to a recipient's file in CBMS, duplicate payments were generated by the system. Second, the system interface used by the Department of Human Services to verify income for eligibility determination for various programs was not operating as intended. This created a serious risk that inaccurate information provided by recipients and used to determine eligibility was not being identified and corrected.

Program Oversight and Monitoring

We identified a number of areas within CBMS where the system lacked sufficient tools and adequate processes for the Departments to use in managing the Medicaid, Food Stamps, and TANF programs and monitoring program trends and areas of noncompliance.

- **Lack of an automated case history.** CBMS was not programmed to automatically provide an accessible case history for each benefit recipient that tracks the changes made to a recipient's file. Without the capability to easily review historical changes, the risk of fraud and errors increases.
- **Lack of a report listing determinations of ineligibility.** We were unable to obtain a listing of applicants determined to be ineligible. Therefore, we were unable to conclude on whether these determinations, in which either recipients were removed from program rolls or applicants were denied benefits, were appropriate. The State has an obligation to provide benefits to all eligible applicants.
- **Lack of reports to adequately oversee and monitor the TANF and Food Stamps programs.** For TANF, pre-defined reports were unavailable to ensure that income was verified, sanctions were properly applied, and overpayments were pursued when appropriate. For Food Stamps, no detailed report was available on tax intercept data to ensure amounts reported on the federal Status of Claims Against Households (FNS-209) report are accurate and applied against benefits.

Fiscal Year 2005 Financial and single Audit Testing

During the Fiscal Year 2005 financial audit and Single Audit conducted at the Department of Health Care Policy and Financing (HCPF) and the Department of Human Services (DHS), the following findings and recommendations related to eligibility determination and the Colorado Benefits Management System were identified.

- 11 of the 30 cases (37 percent) in the Medicaid sample tested at HCPF had one or more exceptions and represented Medicaid questioned costs totaling \$7,778 out of a total sample of \$53,425. Numerous manual procedures were required to be performed in an attempt to recreate eligibility determinations and assess whether they were appropriate.
- Critical system management tools for the TANF and Food Stamp programs at DHS are lacking. For example, TANF lacks reports in the following areas: (1) checks on eligibility, (2) checks on sanctions, (3) caseload analysis, and (4) management of TANF overpayments. Insufficient predefined and ad hoc reporting capabilities impact DHS's ability to effectively oversee these programs.
- 11 of the 36 sanctions (31 percent) in our sample of TANF recipients across 10 counties were not applied appropriately, resulting in \$1,300 in overpayments and \$118 in underpayments to TANF recipients. In these cases, recipient benefits were not appropriately adjusted by the counties when program rules were violated.

Our recommendations and the responses from the Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing can be found in the Recommendation Locator on pages 7 through 14 of this report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	24	The Department of Human Services and the Department of Health Care Policy and Financing should ensure that the remaining case backlogs related to cleansing and processing guidelines are addressed. In addition, the Departments should continue to work with the appropriate federal agencies to minimize the fiscal impact on the State of benefit payments made to ineligible recipients as a result of Colorado Benefits Management System implementation.	Department of Human Services	Agree	Ongoing
			Department of Health Care Policy and Financing	Partially Agree	Implemented and Ongoing
2	28	The Department of Human Services and the Department of Health Care Policy and Financing should improve controls over data input into the Colorado Benefits Management System (CBMS) by (a) requiring county departments of social services and Medical Assistance sites to institute effective supervisory review processes over data entry into CBMS. In addition, the Departments should require that counties establish reviews that compare case file data with data in CBMS on an ongoing basis as part of the county departments' recipient eligibility redetermination process or as otherwise deemed appropriate when making changes to an existing recipient's case and (b) using eligibility determination monitoring procedures currently in place to perform reviews of data input into CBMS and areas in which automated tools within CBMS are not used appropriately.	Department of Human Services	Agree	July 2006
			Department of Health Care Policy and Financing	Agree	July 2006 and Ongoing

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
3	30	The Office of the Colorado Benefits Management System, the Department of Human Services, and the Department of Health Care Policy and Financing should consider implementing a requirement that all county, Medical Assistance site, and Department employees with a need to utilize the Colorado Benefits Management System (CBMS) attend core training courses. Users' continued access to CBMS should be contingent upon completion of the core training courses within a specified period of time, and in the case of new users, should be completed prior to obtaining security access to CBMS. Consideration should also be given to whether system enhancements should be made to minimize the risk of certain types of user errors (e.g., no date entered, or date already passed entered for "beginning effective date").	Office of CBMS	Agree	Ongoing
			Department of Human Services	Agree	Ongoing
			Department of Health Care Policy and Financing	Agree	Ongoing
4	33	The Office of CBMS and the Department of Human Services should take immediate steps to correct the "pass-fail-pass" problem identified in the Colorado Benefits Management System to lessen the risk of errors in benefit payments.	Department of Human Services	Agree	Implemented and Ongoing
			Office of CBMS	Agree	Implemented and Ongoing
5	33	The Department of Human Services should use their eligibility determination monitoring procedures to identify and correct over- or underpayments related to the "pass-fail-pass" problem in the Colorado Benefits Management System and any additional system-related problems.	Department of Human Services	Agree	April 2006

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
6	36	The Office of CBMS and the Department of Human Services should ensure that eligibility information obtained for the Medicaid, Food Stamps and Temporary Assistance for Needy Families programs is verified from other data sources by immediately addressing the problems with the interfaces between the Colorado Benefits Management System and the Automated Child Support Enforcement System and with the federal Income, Eligibility, and Verification System (IEVS).	Office of CBMS	Agree	June 2006
			Department of Human Services	Agree	May 2006
7	38	The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should use their eligibility determination monitoring procedures to establish periodic review procedures for each of the Colorado Benefits Management System interfaces to determine if the interfaces are working correctly and investigate and follow up on problems identified as appropriate.	Office of CBMS	Agree	July 2006
			Department of Human Services	Agree	July 2006
			Department of Health Care Policy and Financing	Agree	Ongoing
8	42	The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should implement a well-defined, accessible archive mechanism in the Colorado Benefits Management System that will eliminate the need for manual interventions to recreate historical eligibility determinations.	Office of CBMS	Agree	Implemented and Ongoing
			Department of Human Services	Agree	Implemented and Ongoing
			Department of Health Care Policy and Financing	Agree	Implemented

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
9	45	The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should improve the program monitoring over the Medicaid, Food Stamps, and Temporary Assistance for Needy Families programs by (a) developing within CBMS predefined reports that contain denied and closed cases for each of the three programs and reports that list by caseworker and county all recipients whose eligibility is subject to redetermination, recipients whose redetermination is in process, or recipients whose cases otherwise require caseworker action and (b) utilizing these reports to improve ongoing review processes over denied and closed cases to ensure determinations and redeterminations made were appropriate and to monitor redeterminations or other instances requiring caseworker action.	Office of CBMS	Agree	July 2006
			Department of Human Services	Agree	August 2006 and Ongoing
			Department of Health Care Policy and Financing	a. Agree b. Agree	a. May 2006 b. Ongoing
10	49	The Department of Human Services should ensure that Food Stamps and Temporary Assistance for Needy Families overpayments are appropriately recouped by (a) developing policies that define overpayments resulting from Colorado Benefits Management System defects and overpayments resulting from other errors or omission, either by the county or the recipient, (b) using the Department's established county monitoring procedures to institute targeted reviews of county supervision and caseworker actions related to overpayments and resulting claims, and (c) providing targeted user training on the proper use of CBMS for benefit recoveries.	Department of Human Services	a. Agree b. Agree c. Agree	a. Implemented b. May 2006 c. August 2006

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
11	53	The Department of Human Services and the Department of Health Care Policy and Financing should improve case file documentation for the Medicaid, Food Stamps, and TANF programs by (a) enhancing policies and procedures requiring counties and Medical Assistance sites to maintain paper copies of required documents within a case file until such time when an electronic version can be maintained as an audit trail and (b) using established monitoring procedures to ensure eligibility information in CBMS is adequately supported by documentation in case files.	Department of Human Services	a. Agree b. Agree	a. August 2006 b. August 2006
			Department of Health Care Policy and Financing	a. Agree b. Agree	a. June 2006 b. Ongoing
12	57	The Department of Health Care Policy and Financing, the Department of Human Services, and the Office of CBMS should work with the county departments of social services and Medical Assistance sites to address Colorado Benefits Management System (CBMS)-related issues and concerns including (a) continuing to monitor timeframes for processing applications to ensure processing occurs within state- and federally-required timeframes; (b) developing accurate and reliable reports for monitoring and tracking intake, redeterminations, and case backlogs on a caseworker and county-wide basis; (c) providing electronic or hard copy notices to caseworkers prior to mailing to clients, so that changes due to system issues can be identified and possibly keep client confusion to a minimum; (d) providing ongoing training to the counties on the correct usage of CBMS including requirements related to data entry of information for eligibility redeterminations; and (e) ensuring counties receive timely support from the helpdesk in response to issues raised.	Office of CBMS	a. Agree b. Agree c. Agree d. Agree e. Agree	a. Implemented and Ongoing b. July 2006 c. Implemented and Ongoing d. Implemented and Ongoing e. Implemented and Ongoing
			Department of Human Services	Agree	Implemented and Ongoing
			Department of Health Care Policy and Financing	Agree	Implemented and Ongoing

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
13	64	The Department of Health Care Policy and Financing should improve controls over eligibility determination for the Medicaid program by (a) establishing an effective means for documenting and substantiating beneficiary eligibility determinations for each paid claim, with the goal to eliminate the need for manual interventions to recreate determinations as of the historical date of service; (b) identifying programming problems and eliminating areas where controls can be manually circumvented to resolve specific issues in the program eligibility determination; (c) reviewing eligibility data in CBMS for accuracy and consistency with source and certified documentation via scanned or copied documentation maintained in the files; and (c) considering requiring all employees utilizing the Colorado Benefits Management System (CBMS) to have attended core training courses to ensure CBMS is populated with data consistently and accurately and in accordance with system parameters.	Department of Health Care Policy and Financing	a. Agree b. Agree c. Partially Agree d. Agree	a. March 2006 b. August 2006 c. In Process and Ongoing d. September 2006
14	71	The Department of Human Services should ensure it is in compliance with federal reporting requirements for the Temporary Assistance for Needy Families program by (a) immediately addressing CBMS reporting deficiencies and ensuring that critical predefined reports for sanctions, IEVS, caseload, clock tick, and accounting-related data are programmed into the system; (b) reviewing monthly critical reports, including those on sanctions, IEVS verifications, and length of benefits, for identifying and investigating discrepancies and monitoring for federal compliance; and (c) reviewing monthly TANF sanction reports and identifying and investigating discrepancies.	Department of Human Services	Agree	September 2006

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
15	76	The Department of Human Services should improve controls over sanctions for the Temporary Assistance for Needy Families program and ensure compliance with federal requirements by (a) identifying and correcting Colorado Benefits Management System (CBMS) errors that are causing inappropriate benefit payments to be made, (b) investigating and correcting problems with the Automated Child Support Enforcement System to CBMS interface to ensure all appropriate information is being transferred, (c) providing training and technical assistance to all county caseworkers on the correct way to enter sanction data into CBMS, (d) formally incorporating reviews of sanctions as part of the current on-site county monitoring process and following up on problems as appropriate, and (e) researching the current system functionality to determine the feasibility of changing the system to limit the ability of county staff to delete sanctions from CBMS and requiring that the case note function be used when deletions are made to a participant's case.	Department of Human Services	a. Agree b. Agree c. Agree d. Agree e. Agree	a. February 2006 b. February 2006 c. September 2006 d. September 2006 e. September 2006
16	79	The Department of Human Services should ensure that it is in compliance with federal Income, Eligibility, and Verification System (IEVS) requirements by immediately addressing the problems with the interface between IEVS and the Colorado Benefits Management System to ensure that all data are verified.	Department of Human Services	Agree	December 2005

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
17	81	The Department of Human Services should improve controls over the Food Stamps program to ensure compliance with federal and state regulations by (a) reinstating on-site management evaluation reviews of county Food Stamps program activities, (b) completing review reports and citing counties for all instances of noncompliance with Food Stamp policies and regulations within 60 days after the review, (c) ensuring corrective action plans for all areas of noncompliance are received from counties within 30 days of the issuance of the monitoring report, and (d) addressing the underlying causes of rising error rates to lower the rates and to ensure that the State does not incur future federal sanctions.	Department of Human Services	a. Agree b. Agree c. Agree d. Agree	a. January 2006 b. January 2006 c. January 2006 d. December 2006
18	85	The Department of Human Services should strengthen its controls over federal reporting and immediately address Colorado Benefits Management System (CBMS) reporting deficiencies for the Food Stamps program by (a) ensuring that validated reports are programmed into CBMS so that Department staff have the data necessary to accurately prepare federal Food Stamps reports and perform routine accounting entries, (b) documenting specific procedures for the preparation of the Food Stamps Issuance Reconciliation Report and preparing the report timely, and (c) requiring that the Food Stamps Issuance Reconciliation Report be reviewed by knowledgeable personnel prior to submission to ensure accurate information is reported to the federal government.	Department of Human Services	a. Agree b. Agree c. Agree	a. July 2006 b. April 2006 c. November 2005

Introduction: Responsibility for Benefits Eligibility Determination

In Colorado, the responsibility for determining recipient eligibility for medical or public assistance benefits is shared between the State and the counties. Counties are responsible for administering the benefit application process, entering the required data for eligibility determination, and approving the eligibility determinations. For Medicaid, Food Stamps, and Temporary Assistance for Needy Families (TANF), individuals and families apply for benefits at their local county department of social services. At the location where applicant interviews are conducted, applicant-provided data for eligibility determination is entered into the Colorado Benefits Management System (CBMS), which is the State's information system that supports the eligibility determination function. For the Medicaid program, eligibility determinations can take place at county departments of social services as well as at Medical Assistance (MA) sites. Currently, there are two entities under contract with the State to provide on-site eligibility determinations for Medicaid as Medical Assistance sites. In the case of Food Stamps and TANF, eligible beneficiaries are provided with a debit card that can be used to purchase groceries or, under the TANF program, to obtain cash benefits; in the case of Medicaid, eligibility information in CBMS is used to determine whether claims submitted by participating Medicaid providers on behalf of beneficiaries should be paid.

The State is responsible for supervising the counties' administration of medical and public assistance programs including Medicaid, Food Stamps, and Temporary Assistance for Needy Families (TANF).

The Department of Health Care Policy and Financing (HCPF) is the state agency responsible for developing financing plans and policy for publicly funded health care programs. The principal program administered by HCPF is the Medicaid program, which provides health services to eligible needy persons. In Fiscal Year 2005, Medicaid had benefit expenditures of \$1.9 billion and an average monthly caseload of about 402,800 beneficiaries. Under federal regulations, HCPF is responsible for ensuring that Medicaid expenditures are in compliance with federal requirements.

The Department of Human Services (DHS) is the state agency responsible for administering the State's public assistance programs, including the federal Food Stamps program and the TANF program, known as "Colorado Works." The Food Stamps program assists low-income individuals and families who need assistance purchasing food. The objectives of the TANF program are to provide time-limited assistance to needy families with children so that the children can be cared for in

their own homes or in the homes of relatives; to end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; to prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and to encourage the formation and maintenance of two-parent families. In Fiscal Year 2005, Food Stamps had benefit expenditures of \$307 million and an average monthly caseload of approximately 95,000 households; TANF had benefit expenditures of \$60.4 million and an average monthly caseload of 15,095 households. Under federal regulations, DHS is responsible for ensuring that Food Stamps and TANF program expenditures are in compliance with federal requirements.

CBMS Overview

On September 1, 2004, the Department of Health Care Policy and Financing and the Department of Human Services implemented the Colorado Benefits Management System. CBMS is intended to provide one unified system for data collection and eligibility determination for 92 HCPF and DHS programs within 12 high-level program groups (see Appendix A for listing of programs), including Medicaid, Food Stamps, and TANF. CBMS was developed jointly by HCPF and DHS. The State is responsible for the administration and proper functioning of the system and for monitoring eligibility determinations made by the counties.

HCPF and DHS implemented CBMS to replace the following six data collection and eligibility systems:

- Client Oriented Information Network
- Colorado Automated Food Assistance System
- Colorado Automated Client Tracking Information System
- Colorado Employment First
- Colorado Adult Protection System
- Child Health Plan Plus

Effective June 1, 2005, the Governor issued an Executive Order to establish the *Governor's Office of the Colorado Benefits Management System*. According to the Executive Order, the Office of CBMS (Office) is accountable for the overall control of CBMS from a direction, planning, management, and delivery perspective. The Office is to provide common oversight and coordination of the state management of CBMS.

Objectives, Scope and Methodology

The Office of the State Auditor (OSA) is responsible for the annual audit of the State of Colorado's financial statements and for the State's annual federal Single Audit, which assesses the State's internal control and compliance with respect to federal laws and regulations. Because of the implementation of the Colorado Benefits Management System during Fiscal Year 2005, the OSA contracted with BKD, LLP to perform additional audit work specifically designed to review eligibility determinations and benefit payments made after CBMS implementation. The objectives of the performance audit were to determine if:

- Payments under the Medicaid, Food Stamps, and TANF programs were made only to eligible beneficiaries or on behalf of eligible beneficiaries and in accordance with state and federal program guidelines.
- Data was correctly entered into CBMS by county and Medical Assistance site staff.
- Benefits were correctly calculated on the basis of the information entered into CBMS.
- Determinations of ineligibility were appropriate and in accordance with state and federal program guidelines.

The performance audit reviewed payments to beneficiaries and related county case files on a sample basis. The sample tested consisted of 96 payments for each of the three programs, or a total of 288 payments. Because the performance audit was intended to evaluate transactions that occurred during Fiscal Year 2005 after the implementation of CBMS, the sample was selected from the population of all Medicaid, Food Stamps, and TANF payments from the inception of CBMS on September 1, 2004 through June 30, 2005.

The performance audit also included visits to seven counties where the auditors interviewed employees, observed the counties' systems, and reviewed backlog information at the county level. The counties were selected based on size (relative to dollars spent within the programs) to obtain a sample of three large counties, two medium counties, and two small counties. The counties selected for onsite visits included Denver, El Paso and Arapahoe (large counties); Mesa and Otero (medium counties); and Huerfano and Lincoln (small counties).

The performance audit was designed to include testing of a sample of 10 clients from the population of those applicants determined to be ineligible from each of the three programs from within the September 2004 through June 2005 period to verify that the ineligible determination was accurate. However, because neither the Departments nor the Office of CBMS were able to provide a list or population of ineligible applicants from which to select a sample, this testing could not be

completed. The Office and Departments indicated after our audit that CBMS has the capability to provide a listing of ineligible clients but the report is not in a “user-friendly” format.

This audit report contains all findings and recommendations related to eligibility determination and the Colorado Benefits Management System that were identified during the performance audit conducted by BKD, LLP under contract with the State Auditor (Chapters 1 and 2) and during the Fiscal Year 2005 financial audit and Single Audit conducted by or on behalf of the State Auditor (Chapter 3).

Impact on Required Reporting under Government Auditing Standards

Under government auditing standards promulgated by the Comptroller General of the United States, in addition to issuing the independent auditor’s report on the State’s financial statements, the State Auditor is required as part of the annual financial and compliance audit to issue certain other reports. These include a report on internal control over financial reporting and compliance with federal laws and regulations that could have a material impact on the State’s financial statements, as well as reports on internal control and compliance with requirements applicable to major federal programs, as defined in the federal Single Audit Act and Office of Management and Budget (OMB) *Circular A-133*. In these reports the State Auditor is required to identify any material weaknesses in internal control over financial reporting, material noncompliance that could have a material affect on the State’s financial statements, and any material weaknesses in internal control or material noncompliance with requirements applicable to major federal programs. Under government auditing standards, a material weakness is defined as a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that either misstatements in amounts that would be material in relation to the financial statements being audited or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major program, such as Medicaid, Food Stamps, or TANF, could occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. In other words, a material weakness is an absence of or weakness in internal control such that a financial statement misstatement or material noncompliance with program requirements could occur and go undetected by employees in the normal course of performing their assigned duties.

Based on the prevalence of concerns noted during the performance audit of eligibility determination after CBMS implementation and during the Fiscal Year 2005 financial and compliance audits of DHS and HCPF, the State Auditor has determined that

during Fiscal Year 2005 the State had material weaknesses in internal controls over financial reporting related to Medicaid, Food Stamps, and TANF. In addition, the State Auditor has determined that the State had material weaknesses in internal controls over eligibility and federal reporting for the Medicaid, Food Stamps, and TANF programs and did not comply in all material respects with compliance requirements related to eligibility and federal reporting for the Medicaid, Food Stamps, and TANF programs.

Eligibility Determination Processes

Chapter 1

The following findings and recommendations were prepared by the firm of BKD, LLP, which conducted this performance audit under contract with the Office of the State Auditor.

Program Error Rates and Questioned Costs

The administration of eligibility determination under the Colorado Benefits Management System (CBMS) is fundamentally different than under the previously separate legacy systems used for the Food Stamps, TANF, and Medicaid programs. Prior to the implementation of CBMS on September 1, 2004, county caseworkers entered eligibility data into multiple legacy systems. Under CBMS caseworkers were required to learn a new consolidated system, including new data-entry requirements, commands, and processing requirements. The legacy systems were simply data repositories for eligibility determinations made by and entered into the systems by caseworkers. Caseworkers reviewed an applicant's information, determined eligibility based on the information, and then input the results into the legacy system. In contrast, CBMS compares the eligibility data entered by the caseworker to program rules embedded within the system and calculates the amount of benefits, if any, that may be authorized under those rules. CBMS is rules based, ensuring consistency of treatment across all applicants; however, CBMS requires that caseworkers enter more data than under the previous legacy systems.

During our performance audit to test requirements under federal laws and regulations, we sampled 288 payments—96 payments each from the Medicaid, Food Stamps, and TANF programs issued between September 1, 2004 and June 30, 2005, or the time period during Fiscal Year 2005 after CBMS implementation. During this 10-month period the Department of Human Services (DHS) issued approximately \$49 million in cash assistance payments to TANF/“Colorado Works” beneficiaries and \$256 million in assistance to Food Stamp beneficiaries. During the same time period, the Department of Health Care Policy and Financing (HCPF) issued over \$1.6 billion in Medicaid benefits. In addition to testing individual eligibility for each of the recipients in our sample who received the benefit payments, we recalculated the dollar amount an individual was eligible to receive for the sampled benefit month

and compared our calculated amount to the benefit amount issued by CBMS. The results of our samples are discussed below.

For Food Stamps we selected a statistically valid sample of 96 payments. We found that 69 of the 96 payments in our sample (72 percent of payments sampled) contained at least one error; for the 69 payments containing errors we identified questioned costs of \$4,500 out of the total sampled costs of \$22,507 (20 percent of costs). The error rates for both numbers and dollars for the Food Stamp program are clearly unacceptable. With total Food Stamp benefit payments for the 10-month period tested of \$256 million and average number of recipient households per month at approximately 95,000, the risk to the State is significant. From the perspective of recipients, significant error rates indicate substantial risk of over or underpayments. From the perspective of the State, federal recoveries could be substantial and the risk of fraud is high.

For TANF, we also selected a statistically valid sample of 96 payments. We found that 24 of the 96 payments in our sample (25 percent) contained at least one error; for the 24 payments containing at least one error, we identified questioned costs of \$4,783 out of the total sampled costs of \$24,027 (20 percent of costs). The error rates for both number and dollar cost for the TANF program are unacceptable. With total TANF benefit payments for the 10-month period tested of \$49 million and average number of recipient households per month at about 15,100, the risk to the State is significant. Again, from the perspective of recipients, error rates like these indicate the potential for over or underpayments and recoveries. From the perspective of the State, federal recoveries could be substantial and the risk of fraud is high.

For Medicaid, we were concerned about the large dollar range of claims paid and selected a stratified sample of 96 payments. The items selected included 36 claims under \$1,000; and 30 claims each from the categories of between \$1,000 and \$10,000 and over \$10,000. We found that 39 of the 96 payments in our sample (41 percent) contained at least one error; for the 39 payments with at least one error we identified questioned costs of \$156,984 out of the total sampled costs of \$538,381 (29 percent of costs). The error rates for both number and dollar cost for the Medicaid program are unacceptable. With total Medicaid claims paid for the 10-month period tested of over \$1.6 billion, the risk to the State is significant.

There are numerous reasons for the high error rates identified during the audit. Among the most important problems encountered upon implementation of CBMS was the need to enter additional data into CBMS that had not been required under the legacy systems. Therefore, although the information in the legacy systems was converted into CBMS, additional eligibility data had to be entered in order for CBMS to be able to function properly. As a result, existing information for each

case had to be reviewed, and the additional information had to be entered into the new system. The review and data augmentation process has been commonly referred to as “case cleansing.” The case cleansing process has been slow and tedious. As is now well known, in August 2004, the Department of Human Services issued an administrative order that benefits were to continue to be paid to those recipients whose cases required cleansing. This administrative order was subsequently reinforced by the courts as a result of a lawsuit filed against the State seeking remedies for untimely and inaccurate benefit payments that allegedly would be caused by the CBMS implementation. The Denver District Court order issued in December 2004 noted, “To ensure the benefit recipients receive their benefits while their case is converted from the Legacy system to CBMS, a process referred to as ‘cleansing,’ the State has provided that all recipients under the Legacy system will continue to receive their benefits through February 28, 2005 Both sides [of the lawsuit] agree the ten largest counties will not have completed the cleansing process by February 28, 2005. For that reason, the Court is requiring the State to keep the benefit freeze flag in effect until further Order of the Court.”

The reported number of cases requiring cleansing varies. In September 2004 the court order reports that, “The State claims there are 380,312 cases still being cleansed Plaintiffs presented evidence that this number is over 600,000.” Regardless, the number of cases involved and the effort required by the counties to address the data needs under CBMS were daunting. The Departments report that as of June 30, 2005, the number of cases requiring cleansing had been reduced to about 51,000, and that as of the end of our audit in March 2006, the number of cases requiring cleansing totaled about 2,700. The Departments further reported that the 2,700 cases remained under the court-ordered benefit freeze.

Not only did county staff have a difficult time cleansing existing cases, but they were required to process new cases. As a result, counties were unable to process all new cases within federal program processing deadlines. The Departments report that as of November 30, 2004, unprocessed cases exceeding processing guidelines for the three programs totaled over 29,000. This number had been reportedly reduced to 4,600 as of June 30, 2005. The Court order stated that the Departments were required to reduce these out-of-compliance cases by “. . . forty (40) percent on or before February 28, 2005. Each sixty (60) days thereafter, the Defendants must reduce each program area’s out-of-compliance cases by forty (40) percent until substantial compliance with federal and state law is achieved.” The State was also required to submit information to the court on the number of new applications and the number of recertification/redeterminations that are out of compliance. A forty percent reduction in the out-of-compliance cases as of February 28, 2005, required the Departments to reduce the number to 17,619. The Departments report that they reduced the number of out-of-compliance cases to 9,521 by February 28, 2005, and, therefore, met the Court’s requirement.

At the request of the Departments, we have provided a breakdown regarding the errors attributable to cases that had been cleansed versus the errors attributable to cases that had not been cleansed but where benefits were required to be paid (i.e., cases that were paid benefits under the benefit continuation freeze). For Food Stamps and TANF, the error rates on cases that had been cleansed prior to payment were still high at 14 percent and 12 percent of payments tested, respectively. For Medicaid, the percentage of questioned costs on payments tested for cases that had been cleansed was significantly lower at 3 percent. As noted earlier, the Medicaid sample size was stratified and was not selected on a statistical basis.

As a result of CBMS implementation problems and increased data-entry requirements, the Department of Human Services employed what are commonly called “pushes.” One manual “push” occurred in September 2004 related to Food Stamp benefits. The Department of Human Services bypassed the eligibility determination process within CBMS and directly authorized the State’s benefits processing vendor to issue payments totaling \$1.4 million to about 6,400 Food Stamp recipients. These recipients were due for eligibility redetermination in September 2004; however, because benefit termination notices had not been sent to recipients for their completion due to the system conversion, the recipients were scheduled to be terminated from the program. Again in December 2004, DHS authorized another manual “push” totaling \$1.1 million to an additional 8,100 Food Stamp recipients who had applied for Food Stamps benefits but had not had an eligibility determination. To date, the US Department of Agriculture (USDA) has sanctioned the State for the entire \$1.1 million December push because the benefits were issued without eligibility having been determined. DHS reports that it has appealed the sanction and is still in negotiation with the USDA.

Other causes of the high error rates are detailed in the additional 26 findings contained in the two CBMS reports (this report, which also includes comments resulting from the Fiscal Year 2005 financial audit and Single Audit at DHS and HCPF, and the CBMS SAS 70 report). In addition to those recommendations, the Departments need to immediately address the benefit freeze and case cleansing issues described above. Further, the Departments need to work closely with their federal counterparts to address questioned costs.

Recommendation No. 1:

The Department of Human Services and the Department of Health Care Policy and Financing should ensure that the remaining case backlogs related to cleansing and processing guidelines are addressed. In addition, the Departments should continue to work with the appropriate federal agencies to minimize the fiscal impact on the

State of benefit payments made to ineligible recipients as a result of Colorado Benefits Management System implementation.

Department of Human Services Response:

Agree. Implementation date: Ongoing.

DHS, through dedicated staff resources, has successfully worked with counties to eliminate freeze flags on all active status cases in the program. Cleansing will occur on all others as new applications are received. Numbers of cases exceeding guidelines will be monitored on a monthly basis and staff will work with counties whose pending cases do not appear to be processed in a timely manner.

DHS' Division of Food and Energy Assistance will continue to work with the USDA/Food and Nutrition Services, Mountain Plains Regional Office (MPRO). The MPRO was actively involved in monitoring the Food Stamp program in the implementation phase of CBMS and continues to meet regularly with personnel from the Food Stamp program to monitor progress and problems.

Department of Health Care Policy and Financing Response:

Partially agree. Implementation date: Implemented and ongoing.

HCPF agrees with this recommendation to the extent that HCPF will continue its current processes that have already made significant progress in both cleansing and cases exceeding processing guidelines. As of March 27, 2006, all counties and Medical Assistance (MA) sites have a minimum of a 95 percent completed status for cases to be cleansed. On October 25, 2005, HCPF submitted a memorandum to the court, supporting a motion to dissolve the preliminary injunction, because substantial compliance has been achieved for the cases exceeding processing guidelines.

However, HCPF disagrees with the auditors' findings in two key areas. The auditors state in the report that a sample of 96 cases was completed and that the "error rates" were "unacceptable." The auditors reports that the causes of the errors are "many" and the numbers are "daunting." HCPF explained to the auditors that the cleansing cases, or cases with the benefits freeze flags, were not errors at all, but rather court-mandated and General Assembly-appropriated actions. In addition, the federal government has been informed

from the beginning about this process. Therefore, these cases cannot be considered errors at all. Later in the section above, the auditors mention that upon removal of these cases, HCPF experienced only a 3 percent rate of “questioned costs.” HCPF believes that this finding of “unacceptable error rates” is unsupported and should not exist.

HCPF agrees with the recommendation to continue to work with the appropriate federal agencies to minimize the fiscal impact on the State benefit payments made to ineligible recipients as a result of CBMS implementation. HCPF continues to submit to the Centers for Medicare and Medicaid Services reports showing the status of cases that need to be cleansed and the cases exceeding processing guidelines. Evidence was provided to the auditors that this was done on November 14, 2005.

Auditor’s Addendum:

It is important to note that this audit was conducted to meet the requirements of the federal Single Audit. Regardless of who was at fault, individuals who were not eligible under federal grant program requirements received benefits.

Controls over Data Input

In addition to the questioned costs related to the court order, our audit identified other questioned costs that indicate internal controls must be improved over data input into CBMS. Controls over data input are critical to ensuring that eligibility determinations and benefit payments are accurate for all program applicants. Policies and procedures should be in place to ensure the accuracy and completeness of new data entered into the system and data transferred from case files into CBMS. During our sample testing, we identified problems in three areas.

First, we noted problems with caseworkers’ use of eligibility effective dates in CBMS. The “effective begin/end date” function in CBMS provides caseworkers with a way to document eligibility changes and the beginning and/or ending date of those eligibility changes. We identified 35 (20 TANF and 15 Food Stamps) instances in which caseworkers either entered an incorrect effective begin date or failed to enter an effective begin date. As a result, clients in our sample were overpaid a total of \$1,961 (\$1,329 for TANF and \$632 for Food Stamps) and one Food Stamp client was underpaid \$118. Specifically, we found instances in which caseworkers erroneously entered a beginning date for a point in time that had already passed and was not supported by information in the case file. CBMS did not reject the entry but instead issued benefits on the basis of the time period starting at the past

point in time entered by the caseworker. In instances in which the caseworker failed to enter a beginning effective date, the system did not flag the missing information but instead used a default date of August 1, 2004, as the eligibility effective date. CBMS then issued the recipient payments back to the default date.

Second, we found evidence of problems related to the income calculations used in determining eligibility. Automated systems often contain tools designed to enhance the accuracy of data calculations. CBMS, as a rules-based system, automatically incorporates and calculates benefits in accordance with federal Medicaid, Food Stamps, TANF, and other program eligibility rules. For example, the new system compares applicant income information entered by a caseworker into CBMS with income requirements and uses this information to determine the applicant's eligibility. The system includes an automated function to convert weekly and biweekly income data into monthly income data. The calculation is triggered when the caseworker enters the pay period and checks an automated box entitled "count for converted." Once the box is checked, CBMS will convert weekly income, for example, into a monthly rate that is then compared to the federal monthly limits. System procedures require that the caseworker enter pay stubs individually by inputting the beginning and end dates of the pay stubs. This is critical for the system to calculate the income correctly. For Food Stamps, federal regulations require income received by all members of the household to be included for purposes of calculating benefits. For families that include non-citizen members, income and expenses from the non-citizen members, less the non-citizen's pro rata share, are to be prorated among the citizen members and included for eligibility determination purposes.

We found during our audit that many caseworkers were circumventing CBMS controls over income calculations by manually calculating applicants' average monthly income and entering the amount into CBMS and that caseworkers were manually prorating income for households with non-citizen members. We noted 19 instances resulting in about \$2,100 in Food Stamps overissuances and \$60 in Food Stamps underissuances in which the caseworker either entered the income incorrectly, manually calculated or prorated an amount instead of using the automated calculation within CBMS, or did not enter the income. Circumventing automated controls increases the risk of errors and irregularities.

Finally, we identified 3 instances totaling \$3,635 in which Medicaid data in CBMS did not agree to data in the legacy systems. In these 3 instances, we were unable to reconcile the clients' data contained in the legacy systems to the data in CBMS or to determine if data contained in the legacy systems was converted appropriately to CBMS upon the system's implementation. As a result, we were unable to determine if the Medicaid recipients were in fact eligible and if claims paid on behalf of the

recipients were appropriate. We cannot conclude as to whether this was a system conversion error or a data entry error resulting from caseworker intervention.

In general these problems indicate a lack of supervisory review at the county level over data entered into CBMS and the need for additional user training. The hallmark of an effective system of internal control is adequately trained and supervised staff. In order to gain assurance that data is accurately entered into CBMS and that resulting payments are appropriate, DHS, HCPF, and the Office of CBMS should ensure that effective supervisory review processes are in place at the counties and that CBMS users at county departments of social services and Medical Assistance sites are adequately trained on appropriate data entry. Further, both DHS and HCPF have long-established eligibility determination monitoring procedures. DHS performs program monitoring for TANF and Food Stamps at the county departments of social services, and the Department's Field Audit Section performs additional reviews at the counties. HCPF performs ongoing case file reviews through its Medicaid Eligibility Quality Control function. The Departments should use these eligibility monitoring procedures to follow up with the counties on the issues identified in this audit related to adequate supervisory review and data input to ensure data integrity problems within CBMS are addressed.

Recommendation No. 2:

The Department of Human Services and the Department of Health Care Policy and Financing should improve controls over data input into the Colorado Benefits Management System (CBMS) by:

- a. Requiring county departments of social services and Medical Assistance sites to institute effective supervisory review processes over data entry into CBMS. In addition, the Departments should require that counties establish reviews that compare case file data with data in CBMS on an ongoing basis as part of the county departments' recipient eligibility redetermination process or as otherwise deemed appropriate when making changes to an existing recipient's case.
- b. Using eligibility determination monitoring procedures currently in place to perform reviews of data input into CBMS and areas in which automated tools within CBMS are not used appropriately. The Departments should include procedures to assess the county supervisory review function as part of the Department's reviews. Follow up procedures on problems identified should be performed as appropriate.

Department of Human Services Response:

- a. Agree. Implementation date: July 1, 2006 and ongoing.

The DHS Food Stamp and Colorado Works programs will work together to issue an agency letter directing counties to effectively institute regular supervisory review processes as a requirement. In addition, the programs will meet with county directors and administrators to emphasize the importance of such reviews.

- b. Agree. Implementation date: July 1, 2006 and ongoing.

The DHS Food Stamp and Colorado Works programs will amend regular County Program Reviews to include a review of data input into CBMS, a review of areas in which automated tools within CBMS are not used appropriately, and a formal assessment of the counties' supervisory review process.

Department of Health Care Policy and Financing Response:

- a. Agree. Implementation date: May 2006.

HCPF agrees with this recommendation. However, under the current structure, the county supervisors report to the field administrators in DHS. Pursuant to current law, HCPF does not have direct supervisory authority over the counties. HCPF will work with DHS and recommend that (1) closer supervisory review be implemented and (2) that the counties establish reviews that compare case file data with data in CBMS on an ongoing basis. HCPF will work with DHS starting May 2006. If approved, Senate Bill 06-219, the HCPF Reorganization Bill, will allow HCPF to directly oversee county administration concerning Medicaid and the Children's Basic Health Plan.

The Medical Assistance sites are required to perform quality reviews over data entry. The quality control is monitored by HCPF staff.

- b. Agree. Implementation date: Implemented and ongoing.

HCPF agrees with the recommendation and will continue to use the review processes that are in place to perform reviews of data input into CBMS. These reviews will also attempt to identify when automated

tools within CBMS are not used appropriately. HCPF does not have the authority to provide county supervisory reviews. However, through DHS, HCPF will work to identify deficiencies and provide additional targeted training.

The Medical Assistance (MA) sites are required to conduct quality review over the cases they process. HCPF staff monitors the results of the MA sites' reviews.

Recommendation No. 3:

The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should consider implementing a requirement that all county, Medical Assistance site, and Department employees with a need to utilize the Colorado Benefits Management System (CBMS) attend core training courses. Users' continued access to CBMS should be contingent upon completion of the core training courses within a specified period of time, and in the case of new users, should be completed prior to obtaining security access to CBMS. Consideration should also be given to whether system enhancements should be made to minimize the risk of certain types of user errors (e.g., no date entered, or date already passed entered for "beginning effective date").

Office of CBMS Response:

Agree. Implementation date: Ongoing.

The Office of CBMS has already created and has been offering the following training courses that are available to end users: (a) CBMS 101, 102, and 103; (b) CBMS Business Objects 101, 102, and 103; (c) CBMS Security 101 and 102; (d) CBMS Basis Training 101; and (e) Adult Protection Services Training. The Office of CBMS will work with DHS and HCPF to require end users to attend core-training courses. The core training courses will be identified and communicated to the end users. The Office of CBMS, DHS, and HCPF have been listening to end users by utilizing the County User Group, County Reports User Group, Training Advisory Group, DHS Portal, the QUEUE Newsletter, etc., as forums for training needs. All change requests go through the Change Control Board to prioritize the change requests and approve/deny change requests.

To minimize the risk of certain types of user errors such as no data entered, or data already passed entered for beginning effective date, please refer to our response to Recommendation 4. Also, training courses have and will emphasize the solutions to these data entry concerns.

Department of Human Services Response:

Agree. Implementation date: Ongoing.

DHS will work with HCPF and the Office of CBMS to establish and communicate new requirements for end users to attend core-training courses.

Department of Health Care Policy and Financing Response:

Agree. Implementation date: Ongoing.

The Office of CBMS is responsible for providing core training. HCPF defers to the Office of CBMS to respond to the recommendation about core training and requiring training prior to system access. Monitoring and supervisory review was addressed in our response to Recommendation 2a.

The Training Advisory Group, HCPF's Medicaid Eligibility Quality Control Unit, and all users have the ability to recommend change requests to reduce such user errors described in this recommendation. HCPF will prioritize these change requests as necessary to reduce substantial user errors.

System Problems Affecting Benefit Payments

Food Stamps, TANF, Medicaid, and other program recipients qualify for aid because their income is below certain thresholds and therefore, they are eligible to receive financial assistance and/or services. Delaying payments to recipients can cause severe hardship; similarly, if benefits are issued in error and repayment is requested, this can present a financial hardship for the recipient and a significant collection problem for the State. CBMS was designed to improve the accuracy and timeliness of eligibility determination, as well as eliminate bureaucratic duplication of documents that applicants and recipients are required to file for different programs. However, in some instances system problems compounded the difficulties experienced after CBMS was implemented on September 1, 2004.

In addition to the issues related to the overrides of the eligibility determination process as a result of the court order and system pushes and the lack of adequate controls over data entered into CBMS, we found system-related problems within

CBMS that affected the accuracy of benefit payments. These also contributed to the questioned costs identified during the audit. The system-related problems that directly contributed to incorrect benefit issuance are discussed in the next two sections.

Duplicate Payments

We found that in certain instances, when a caseworker made changes to a recipient's file in CBMS duplicate payments were generated by the system. We identified 6 instances of Food Stamps program overpayments totaling \$216 and underpayments totaling \$27 in our sample of 96 payments that were caused by a known problem in the system referred to as the "pass-fail-pass" problem. In these cases, CBMS used the recipient's data input into the system to calculate monthly income and determined the individual was eligible for benefits. Because CBMS itself does not issue payments, CBMS triggered the related financial systems to generate a benefit payment. In these 6 cases, a caseworker had subsequently changed information in the recipient's CBMS file. The new information erroneously caused CBMS to determine the recipient was previously ineligible. The recipient was then automatically sent a bill requesting repayment. When the caseworker noted that the recipient had erroneously been billed for benefits received, the caseworker changed the data back to correctly indicate the recipient was eligible for the previous payment. At this point the system compounded the error by triggering the repayment of benefits to the recipient back to the effective date entered in CBMS. In other words, because CBMS only looked to the most recent determination and not to the recipient's entire history, which showed that benefits had already been paid, CBMS generated an additional benefit payment. As a result the recipient received duplicate payments benefits when CBMS "passed" or processed the recipient eligibility the second time.

The State can be sanctioned under the program by the federal government for program payment errors. The "pass-fail-pass" problem identified in CBMS should be corrected immediately to ensure that program payments are appropriate. Further, the Departments should use their established eligibility determination monitoring procedures to identify any over- or underpayments related to the "pass-fail-pass" problem and take corrective action as appropriate.

Recommendation No. 4:

The Office of CBMS and the Department of Human Services should take immediate steps to correct the “pass-fail-pass” problem identified in the Colorado Benefits Management System to lessen the risk of errors in benefit payments.

Office of CBMS Response:

Agree. Implementation date: Implemented and ongoing.

The Office of CBMS and DHS have addressed this issue and we believe that we have the vast majority of the problem fixed by implementing the following: (a) Implemented and in production fixes and change requests; Change Request 1240 was implemented in November 2005, Change Request 1327 was implemented in November 2005, and Change Request 1037 was implemented in February 2006; (b) Effective end dates and Eligibility Determination and Benefit Calculation run dates procedure; and (c) Knowledge transfer conference calls during the month of February 2006.

Department of Human Services Response:

Agree. Implementation date: Implemented and ongoing.

DHS, in conjunction with the Office of CBMS has helped to build fixes in the system to address the concerns of “pass-fail-pass.”

Recommendation No. 5:

The Department of Human Services should use its eligibility determination monitoring procedures to identify and correct over- or underpayments related to the “pass-fail-pass” problem in the Colorado Benefits Management System and any additional system-related problems. Reviews should be targeted to identify additional areas requiring corrections, if necessary. Follow up on problems identified should be performed as appropriate.

Department of Human Services Response:

Agee. Implementation date: April 14, 2006.

The DHS Food Stamp Program is utilizing its monitoring procedures to identify and correct incorrect issuances related to the pass-fail-pass problem. This includes a comprehensive review of individual Food Stamp cases affected by the problem.

CBMS Interfaces with Other Systems

The Department of Human Services and Department of Health Care Policy and Financing (Departments) utilize data comparisons with other information systems, or “interfaces,” to verify the validity of recipient-provided data. Data comparisons are an important control over ensuring the accuracy of recipient-provided data used in determining eligibility for benefits, as well as the overall integrity of the data in CBMS. For example, the Departments use an interface between CBMS and DHS’ Automated Child Support Enforcement System to identify child support income that an applicant may or may not have reported.

In addition, both Departments utilize the federal Income, Eligibility, and Verification System (IEVS) to verify income for eligibility determination for various programs. IEVS provides states with applicant income information from the Social Security Administration, Internal Revenue Service, and the Colorado Department of Labor and Employment. Through IEVS, applicants’ social security numbers are matched with these agencies’ records to identify instances in which applicants have potentially misstated their earned and unearned income and resources. The federal government requires that Medicaid and TANF applicants’ income information and identity be verified through IEVS at the time of application. Although IEVS is not currently required for the Food Stamps program, DHS has chosen to use IEVS for Food Stamps applicants as well. CBMS is programmed to collect the social security number for all individuals approved for public assistance and compare the information to the IEVS files. If any of the income-related items do not match, a “hit” will be produced and returned to the county caseworker. If there are no hits it is assumed the social security number and other information is valid. We found evidence that incorrect information was in CBMS; however, no hit was generated by the IEVS interface. Therefore, it appears that the IEVS interface with CBMS was not operating as intended. These problems are discussed below.

We identified 6 instances in our sample of 96 Food Stamps payments in which the interface between the child support system and CBMS did not appear to be working

correctly. Specifically, we identified 6 Food Stamps recipients that were overpaid a total of \$212 because child support income either was not reported to CBMS by the child support system or was reported after the Food Stamps benefits had been calculated and paid based on income not including child support payments.

We also identified 4 instances in which the IEVS to CBMS interface did not appear to be working correctly for TANF and Food Stamps cases. Specifically, we found the following:

- In two instances for TANF, the caseworker failed to enter income reported by the applicants on their Monthly Status Reports for TANF; however, no IEVS hit was produced. As a result, the recipients were overpaid a total of \$101 for the claims reviewed in our sample.
- In one instance for Food Stamps, the social security number contained on the recipient's card did not match the social security number entered into CBMS; however, no IEVS hit was produced. As a result, the recipient appeared to have been overpaid \$292 for the claim reviewed.
- In one instance for Food Stamps, two different beneficiaries provided the same social security number; however, no IEVS hit was produced for either case. As a result, the sampled recipient appeared to have been overpaid \$2 for the claim reviewed.

Further, problems were identified with the IEVS to CBMS interface in the Fiscal Year 2005 financial audit of the Department of Human Services. This finding and recommendation is discussed in Chapter 3 of this report. The problems related to how systems intended to interface with CBMS to ensure the accuracy of recipient-reported information affecting eligibility were not working during the period of our review. These problems represent a serious risk that inaccurate information provided by recipients and used to determine eligibility is not being identified and corrected. As a result, the State is at greater risk of issuing erroneous benefit payments.

As noted earlier, DHS is required under federal regulations to conduct IEVS matches for TANF applicants and may be sanctioned for noncompliance. In addition, because DHS has elected to use IEVS for the Food Stamps program, the Department risks not identifying ineligible applicants for Food Stamps if the IEVS to CBMS interface is not operating as intended.

Recommendation No. 6:

The Office of CBMS and the Department of Human Services should ensure that eligibility information obtained for the Medicaid, Food Stamps and Temporary Assistance for Needy Families programs is verified from other data sources by immediately addressing the problems with the interfaces between the Colorado Benefits Management System and the Automated Child Support Enforcement System and with the federal Income, Eligibility, and Verification System (IEVS).

Office of CBMS Response:

Agree. Implementation date: June 30, 2006.

The CBMS/Automated Child Enforcement System (ACSES) interface issues/problems have been addressed vigorously. CBMS enhancements/fixes that are completed are:

- (1) CBMS already implemented Bendex and SDX interfaces in December 2005;
- (2) ACSES enhancements and fixes completed and in production as of July 23, 2005 include the following:
 - (a) ACSES Case Referral program enhancements and standardization: error handling, diagnostics messages moved, provide greater functionality, archiving input files; lengthen file retention, enhance batch summary records, create new information rows for reporting;
 - (b) ACSES Case Change program enhancements and standardization: error handling, diagnostics messages moved, provide greater functionality, archiving input files; lengthen file retention, enhance batch summary records, create new information rows for reporting;
 - (c) ACSES Non Cooperation program enhancements and standardization: error handling, diagnostics messages moved, provide greater functionality, archiving input files; lengthen file retention, enhance batch summary records, create new information rows for reporting;
 - (d) ACSES Monthly UPA County Code 99: fixed the program to select County of Service codes versus the County update code;
 - (e) ACSES Child Support Payment End Dating: program to end date Child Support payments and post applicable values so that program DTs will count the payments correctly.

- (3) ACSES enhancements and fixes completed and in production as of September 10, 2005 include the following:
 - (a) Interface, ACSES Regular, Comply Flag: correct programming to post the Comply Flag correctly.

- (4) ACSES enhancements and fixes completed and in production as of October 22, 2005 include the following:
 - (a) Interface, ACSES Case Referral: correct the selection criteria for cases to be referred to Child Support Enforcement;
 - (b) Update ACSES GIMEDCSE transaction: corrected to retrieve the status date of only the latest Completed/Discontinued RRR.

- (5) ACSES enhancements and fixes that are currently being worked on are:
 - (a) The ACSES Non-Coop Interface is being reviewed by ACSES for a short-term solution; program areas are writing an Approved Decision Table and Change Request (ADTCR) to start the design process;
 - (b) Scheduled for production in April 2006 is CR1034 - ACSES Case Referral; this addresses the referral of Supplemental Security Income (SSI) recipients who are over 18 years of age; only SSI recipients who are under 18 are to be referred to ACSES;
 - (c) ACSES - Child Support Monies pending; received ADTCR from program area on March 15, 2006 and CR1546 will be presented to the CBMS Change Control Board on March 21, 2006 for approval to request a Detailed Design Assignment (DDA).

The State Verification and Exchange System (SVES) match request can be entered into CBMS or directly on the mainframe. All SVES responses are posted on the mainframe. Change Request 1420 will replace sections of the SVES match State Online Inquiry (SOLQ). This change is currently scheduled for production on June 17, 2006, dependent on the ability of the Social Security Administration (SSA) to schedule its SOLQ audit team for Colorado approval. More changes within the next few months will include restart of the SVES prisoner match, 40-quarter match, and death match.

The IEVS/CBMS interface is having some issues with Bendex (SSA) and we are researching these problems now. The IEVS/CBMS wage and unemployment data is working correctly.

Department of Human Services Response:

Agree. Implementation date: May 1, 2006 and ongoing.

The DHS Food Stamp and TANF/Colorado Works programs, in conjunction with the Office of CBMS will continue to identify issues with verification from other data sources and will forward appropriate change requests to the Office of CBMS to improve interface issues identified with CBMS.

Recommendation No. 7:

The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should use their eligibility determination monitoring procedures to establish periodic review procedures for each of the Colorado Benefits Management System interfaces to determine if the interfaces are working correctly and investigate and follow up on problems identified as appropriate.

Office of CBMS Response:

Agree. Implementation date: July 2006.

The Quality Assurance Team of the Office of CBMS will work with DHS and HCPF program areas to establish periodic review procedures for each of the CBMS interfaces to determine if the interfaces are working correctly and investigate and follow up on problems identified as appropriate.

Department of Human Services Response:

Agree. Implementation date: July 2006.

DHS will work with the Office of CBMS' Quality Assurance Team to establish periodic review procedures for each of the CBMS interfaces to determine if the interfaces are working correctly and investigate and follow up on problems identified as appropriate. DHS understands that the lead responsibility for implementation will be assumed by the Office of CBMS.

Department of Health Care Policy and Financing Response:

Agree. Implementation date: Ongoing.

HCPF agrees with this recommendation and has a variety of avenues in which any concerns regarding interfaces would be brought to the attention of the Office of CBMS. This includes monitoring that is conducted in the Medicaid Quality Control Unit, the Payment Error Rate Measurement Project, the processing of cases exceeding processing guidelines, feedback, and investigation from county and medical assistance site workers, and issues identified via helpdesk tickets submitted by the end user. It is the responsibility of the Office of CBMS to ensure that the interface is posting data correctly and accurately. HCPF staff will review situations to help identify what appears to be incorrect and work with the Office of CBMS. The Office of CBMS then corrects issues identified with the interfaces.

Program Oversight and Monitoring

Chapter 2

The following findings and recommendations were prepared by the firm of BKD, LLP, which conducted this performance audit under contract with the Office of the State Auditor.

During our audit, we identified a number of areas within CBMS where the system lacked sufficient tools and adequate processes for the Departments to use in managing the Medicaid, Food Stamps, and TANF programs and monitoring program trends and areas of noncompliance. In addition our audit included visits to seven county departments of social services, during which we interviewed staff regarding CBMS-related processes. These areas are discussed in this chapter.

Automated History of Case File Changes

We found that CBMS lacks the capability to provide information that tracks changes made to individual recipient case files. System information is automatically updated as new information is added, and in essence, new information overwrites old information. We found that CBMS does not automatically maintain an accessible case history for each recipient that tracks the various changes made to the recipient's file over time. This is a substantial issue in a system that is responsible for generating billions of dollars of payments.

In order to conduct ongoing reviews of actions taken on case files, county managers must review daily archive data to identify prior activity on a recipient's file, manually working backwards through the system in an attempt to recreate the eligibility status of a recipient in CBMS for a specific previous point in time. Caseworkers face the same problem when they are working with a recipient to determine if an error occurred, when it occurred, and what the accurate payment should be. The cumbersome process of recreating daily archive files limits the ability of managers to review case files for accuracy, errors, and irregularities and of county staff to provide services to recipients. During our audit, we, along with DHS and HCPF staff, performed manual interventions on many of the cases we reviewed in an attempt to recreate eligibility determinations for the program recipients in our sample. The lack of a well-defined, easy to access archive trail increases the risk of errors and irregularities. This is a fundamental control that should be in place in the system to minimize errors as well as occurrences of fraud

and irregularities and thereby reduce the potential of making payments that are not reimbursable under federal regulations.

Recommendation No. 8:

The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should implement a well-defined, accessible archive mechanism in the Colorado Benefits Management System that will eliminate the need for manual interventions to recreate historical eligibility determinations.

Office of CBMS Response:

Agree. Implementation date: Implemented and ongoing.

CBMS does overwrite old information if the user does not enter the data correctly into CBMS. A Knowledge Transfer conference call has been held on this topic for all users to call into. County users will not lose history if they follow the View History Window procedure which was provided to all users via the CBMS communications and also included in the CBMS Training Class 102.

Also, this issue is currently being addressed with Change Request 1052 - Separate II Current Data from Historical Data, Change Request 1351 - Create New History Screens and Update Current History Screens, Change Request 1531 Draft - Summary Screen and Change Request 1504 - Adding Deleted User and Date to the History Windows. The Office of CBMS will continue to work with DHS and HCPF to improve accessing historical client information.

Department of Human Services Response:

Agree. Implementation date: Implemented and ongoing.

The DHS Food Stamps and TANF/Colorado Works programs will work with the Office of CBMS to reduce and eliminate the need for manual interventions to recreate historical determinations.

Department of Health Care Policy and Financing Response:

Agree. Implementation date: Implemented as of March 2006.

CBMS has many features and functions that are used to track case file changes. HCPF agrees that a more accessible archive mechanism will eliminate the need for manual interventions to recreate eligibility determination history. HCPF submitted a CBMS change request to the Office of CBMS in March 2006 to address this issue. The Office of CBMS reports to HCPF that it is evaluating current CBMS audit processes in order to enhance the ability of case reviewers to access data in CBMS that was present at the time of determination and authorization. HCPF will work with the Office of CBMS to evaluate audit processes.

Automated Reporting Capability

One of the main goals of CBMS was to provide improved system reporting capabilities that would help to manage medical and public assistance programs by allowing for better analysis of eligibility determinations made, payments issued, and trends in caseloads and other information. However, we found that the system reporting capability is weak. We identified specific critical areas for which no reports were provided. Two of these areas are discussed below. Other reporting problems in areas including TANF sanctions, TANF caseloads, Food Stamps authorized benefits, and Food Stamps collections of overpayments via tax intercepts are discussed in detail in Chapter 3 of this report.

First, we requested but were not provided with a report of those who applied for benefits and were subsequently denied for the Medicaid, Food Stamps, and TANF programs. The scope of our audit was designed to include a review of cases for 30 applicants for Medicaid, TANF, and Food Stamps (10 for each) who were determined to be ineligible during the period from September 1, 2004 through June 30, 2005. The purpose of this testing was to verify the appropriateness of the ineligible determination. However, although we made repeated requests to each of the agencies involved in the audit for this information, staff were unable to provide us with a listing of ineligible applicants from CBMS from which to select a sample. As a result, we were unable to perform the full scope of testing defined under the audit. At the conclusion of our audit staff reported that CBMS does have the capability to provide a report listing ineligible applicants; however, the report is not in a user-friendly format. At a minimum, if such a report does in fact exist the lack of knowledge and utilization of the report on the part of program staff is a serious

deficiency in internal controls. The Departments are responsible for providing benefits to all eligible individuals that apply for medical or public assistance programs. Staff should be monitoring those applicants determined ineligible for benefits to ensure that these determinations are accurate.

Second, CBMS does not provide a comprehensive report listing, by county, of all recipients whose eligibility is subject to redetermination, recipients whose redetermination is in process, or recipients whose cases otherwise require caseworker action. While county supervisors currently can generate these reports for each specific caseworker, no cumulative report is available. Further, some counties indicated they were only able to obtain CBMS reports containing the number of outstanding redeterminations rather than specific recipient cases requiring redetermination action. Federal Medicaid, Food Stamps, and TANF regulations require clients' eligibility to be redetermined, or recertified, at least every 12 months. If a client is determined to be ineligible or the client's case is otherwise not reviewed within the required time period, the client's case file should be closed. States can be sanctioned for noncompliance with redetermination requirements. Without a cumulative listing of cases requiring redetermination actions, the counties and the Departments do not have a good mechanism for identifying backlogs and cases that are out of compliance with timely redetermination requirements.

The lack of sufficient reporting capabilities is a concern because it is essential for program staff to have access to all eligibility information in order to determine if decisions made were appropriate and proper notifications were provided to the denied applicants. Further, under Food Stamps regulations, states can be sanctioned for denying or closing cases inappropriately. In fact, as discussed in Chapter 3, the U.S. Department of Agriculture placed the Department of Human Services on corrective action due to its high number of denied and closed cases during the September 2004 through May 2005 time period. DHS staff indicate that the high number of denied and closed cases was indirectly due to CBMS implementation because data conversion problems required them to delete duplicate cases. However, without sufficient mechanisms for identifying and reviewing denied and closed cases on an ongoing basis, as well as for reviewing the status of redeterminations, the Departments do not have an effective tool for managing the Medicaid, Food Stamps, and TANF programs.

Recommendation No. 9:

The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should improve the program monitoring over the Medicaid, Food Stamps, and Temporary Assistance for Needy Families programs by:

- a. Developing within the Colorado Benefits Management System predefined reports that contain denied and closed cases for each of the three programs and reports that list by caseworker and county all recipients whose eligibility is subject to redetermination, recipients whose redetermination is in process, or recipients whose cases otherwise require caseworker action.
- b. Utilizing these reports to improve ongoing review processes over denied and closed cases to ensure determinations and redeterminations made were appropriate and to monitor redeterminations or other instances requiring caseworker action.

Office of CBMS Response:

Agree. Implementation date: July 2006.

The Office of CBMS has been working with and will continue to work with DHS and HCPF to improve program monitoring over the various programs.

For Part (a), CBMS has already implemented an Ad Hoc Reporting functionality. Denial information can already be retrieved from CBMS by using the Ad Hoc functionality that is located in Business Objects. There is also a CBMS Denial Report that selects data from the Interactive Interview track. Denial data from Intake can be pulled through the Ad Hoc functionality in CBMS. The CBMS Reports Group provided training to the State, county, and Medical Assistance sites on how to use the Ad Hoc functionality and pull the data. County/State staff can attend the Ad Hoc training class to create their own county denial report. Also, there is a Business Objects User Guide on the DHS portal and available to all CDHS CBMS county users.

For part (b), a monthly county Redetermination Report is available and has been available in Business Objects. This report was one of the 100 predefined reports that the CBMS contractor, EDS, had to develop. A shortcoming in the CBMS Redetermination Report was recently discovered and will be corrected in July 2006. CBMS has developed a Business Objects

training course to allow understanding of how to access reports. Also, the Business Objects User Guide is available on the DHS portal. The automated alerts and tickler function also notifies the caseworker of a Redetermination Due and other instances requiring caseworker action. The CBMS State Reports Team is working on Change Request 1344 that will create an overdue Redetermination Report for each county by caseworker.

Department of Human Services Response:

- a. Agree. Implementation date: August 30, 2006 and ongoing.

The DHS Food Stamp and TANF/Colorado Works programs will assist the further development of necessary predefined reports that counties will use to track the need for redetermination of eligibility.

- b. Agree. Implementation date: August 30, 2006 and ongoing.

The DHS Food Stamp and TANF/Colorado Works programs will use these improved reports as part of the count program review process and will periodically review these same reports to provide supervision over county performance.

Department of Health Care Policy and Financing Response:

- a. Agree. Implementation date: May 2006.

HCPF agrees that a report of closed cases and a listing of “recipients whose redetermination is in process” would be beneficial to CBMS workers. The existing monthly “Redeterminations Due” report for Food Stamps can be altered to display “recipients whose eligibility is subject for redetermination” for all programs. HCPF will submit a CBMS change request to create this report and a report of closed cases by May 1, 2006.

It should be noted that the following user-friendly reports exist and are available to all CBMS users by caseworker and county: (1) Monthly “Discontinue Denial by Program” report that details each case or client that was denied eligibility or eligibility was discontinued; the denial reason for each client is included in the report; and (2) Weekly “Pending Applications Detail Report” that details “recipients whose cases otherwise require caseworker action” and is available for each county;

this report includes the user identification of the CBMS caseworker responsible for each case.

HCPF will also publish a reminder to CBMS users by May 2006 detailing the availability and usefulness of the existing reports.

- b. Agree. Implementation date: Ongoing.

Reports cannot be used in isolation to identify if the client's eligibility was determined or redetermined correctly. They can only be a source of sampling for a review of eligibility determinations.

HCPF agrees to continue to use the current monitoring processes in place to monitor county and Medical Assistance site performance. The Medicaid Eligibility Quality Control (MEQC) Unit will continue to obtain a copy of sampled case files to review and compare the hard copy file against the findings in CBMS. MEQC has a procedure in place to review the files to determine if they contain all the necessary documents to support the eligibility determination as reflected in CBMS. The findings of its review are analyzed and issues are communicated to CBMS users through written communication and training.

HCPF has been participating in the federally-mandated Payment Error Rate Measurement (PERM) project. PERM will have an eligibility component that will review a random set of cases for accurate eligibility determinations and information. The findings will be used to correct procedures and errors that are made at the county level when determining eligibility.

Collection of Overpayments

In addition to weaknesses in the Departments' tools within CBMS to provide information to track case file changes and provide reports, we noted concerns with the tracking and collection of overpayments. At the end of Fiscal Year 2005, amounts due from recipients for Food Stamps and TANF overpayments totaled \$10 million (\$8.5 million for Food Stamps, and \$1.5 million for TANF). This amount, however, does not reflect claims for program overpayments after CBMS implementation due to reporting capability weaknesses; these problems are specifically discussed in Chapter 3.

During our audit, we found that CBMS generated claim notices for overpayments; however, we identified little repayment activity. Under federal regulations, the Department of Human Services is required to establish repayment claims against recipients who are overpaid Food Stamps or TANF benefits through inadvertent or intentional errors on the part of recipients. When CBMS determines that a recipient has been overpaid due to caseworker or recipient error, the system creates a bill and automatically sends a Repayment Agreement to the recipient. Recipients can either make repayments through cash payments or through a reduction in their future benefits until the claim is paid in full. If a recipient does not choose one of those options and fails to indicate a choice by returning a signed Repayment Agreement within the time limit specified by State policy, CBMS can initiate the process to intercept state tax refunds, federal tax refunds, or both. For the instances observed in our sample, the recovery was either still shown as a receivable in the CBMS file, or a county worker had “written-off” the recovery amount as due to a system error, thereby not requiring the client to repay the over-issuance. We were unable to determine from our review whether a supervisory review had been performed to determine the appropriateness of the write-off or whether the counties had taken any action to collect the overpayment. The question of whether write offs of repayments are appropriate is a particular concern because our audit identified 54 instances in which county caseworker error or circumvention of controls caused an incorrect issuance of benefits, as discussed in Chapter 1. In these instances, if the overpayment totaled \$125 or more, the Department is required to establish a claim against the household and, in most cases, to initiate collection action. Therefore, reviewing write offs is an important control to ensure repayments are collected from the appropriate party.

After the lawsuit brought against the State related to CBMS implementation, the Department of Human Services issued an agency letter in February 2005 to county departments of social services informing them that neither the recipients nor the counties would be responsible for repayment of TANF or Food Stamp program overpayments made as a result of the failure of CBMS to operate properly. DHS indicated that CBMS “system defects” include decision table problems and incorrect system programming. In addition, for Food Stamps, any duplicate issuances due to the force through, or “push,” of benefits by DHS were to be considered system-caused errors.

Because no monies will be recovered from either the recipient or the county for payments related to system defects, the State will be responsible for the full repayment to the federal government of any overpayments resulting from these problems. In addition, we noted that DHS indicated in its agency letter that county directors will be responsible for determining if a recovery was caused by the system and therefore, should be written off. It is imperative for DHS to formally define more specifically overpayments that are the result of a CBMS system defect and

overpayments that are the result of other errors or omissions. In addition, DHS should develop policies requiring a supervisory review of caseworker actions to lessen the risk that a repayment will be written off inappropriately or that repayments will be classified improperly (i.e., as a system error vs. a non-system error) and provide targeted user training on the proper use of CBMS in relation to benefit recoveries.

Recommendation No. 10:

The Department of Human Services should ensure that Food Stamps and Temporary Assistance for Needy Families overpayments are appropriately recouped by:

- a. Developing policies that define overpayments resulting from Colorado Benefits Management System defects and overpayments resulting from other errors or omission, either by the county or the recipient.
- b. Using the Department's established county monitoring procedures to institute targeted reviews of county supervision and caseworker actions related to overpayments and resulting claims. The reviews should ensure that the cause of overpayments is correctly classified and that write-offs comply with policies.
- c. Providing targeted user training on the proper use of CBMS for benefit recoveries.

Department of Human Services Response:

- a. Agree. Implementation date: Implemented.

DHS has already provided the following agency letters on this issue: (1) GEN-05-02-P, "Implementation of Recovery Process in CBMS for System Caused Errors," issued February 22, 2005; (2) GEN-06-01-I, "Addendum to Implementation of Recovery Process in CBMS for System Caused Errors," issued January 13, 2006; and (3) GEN-06-02-I, "Addendum to Implementation of Recovery Process in CBMS for System Caused Errors," issued March 6, 2006. The determination of what constitutes a system caused error or what constitutes an agency error is to be determined by the individual county director.

- b. Agree. Implementation date: May 1, 2006.

The DHS Food Stamp and TANF/Colorado Works programs will use existing County Management Evaluation program review processes to institute and monitor county actions related to establishment of overpayments and resulting claim action. The TANF/Colorado Works program will pull a caseload sample to review this area of concern and will include this activity on its monitoring tool. The Food Stamp Program Management Evaluation process already includes a review of a caseload sample to review this area of concern.

- c. Agree. Implementation date: August 30, 2006.

The DHS Food Stamp and TANF/Colorado Works programs will include claim establishment and recovery actions as part of training curricula.

Case File Documentation

Adequate internal controls over benefit payments require that sufficient documentation is obtained and maintained to support all program payments. As the administrators of the Medicaid, Food Stamps, and TANF programs, HCPF and DHS are responsible for ensuring that payments made under the three programs are appropriate under state and federal laws and regulations. This responsibility includes ensuring that county departments of social services and, in the case of Medicaid, Medical Assistance sites are maintaining sufficient supporting documentation to prove that decisions and resulting payments made are appropriate and in compliance with state and federal program requirements. We found instances in which case files could not be provided and instances in which the files that were provided lacked required information, as follows:

Missing case files. For 26 of the 288 payments tested (9 percent), the counties were unable to provide the recipient case file. By program, the following files were not provided:

- Medicaid: 17 out of the 96 files requested (19 percent of files totaling \$65,518 in claims payments).
- Food Stamps: 2 out of 96 files requested (2 percent of files totaling \$688 in monthly benefit payments).
- TANF: 7 out of 96 files requested (7 percent of files totaling \$1,354 in monthly benefit payments).

We noted that although eligibility information for the benefits in our sample was entered in CBMS and the benefits in our sample were paid correctly according to the data in CBMS, the Departments were not able to provide us with client case files from the counties and Medical Assistance sites to support the information entered. Without the client case files, we were unable to trace eligibility information from the case file into CBMS to determine whether the benefits in our sample were issued to eligible individuals. Therefore, we considered the eligibility payments to these recipients to be questioned costs, and the payments are included in our overall summary of questioned costs noted in this report.

Lack of a signed application. In 3 instances totaling \$550 for Food Stamps and 4 cases for TANF totaling about \$950 out of 96 sample cases, we noted that although we received a client case file, the case file did not include a signed application for the benefits in our sample. State Food Stamp and TANF program regulations require counties to obtain a written, signed application from program applicants containing, at a minimum, the name, age, and residence of the applicant, the category or type of assistance sought, a statement of real and personal property in which the applicant has an interest, and all income at the time of the application. In these 7 instances where an application was not in the file, the client appeared eligible according to the data entered in CBMS. However, without a signed application we were unable to agree the eligibility information entered in CBMS to supporting documentation or otherwise confirm that the information entered into the system was accurate. Again, the lack of supporting documentation to verify the accuracy of data entered into CBMS creates a substantial risk of fraud and abuse.

Missing Monthly Status Reports (MSRs). TANF participants are required to report information concerning income, household composition, and other specific essential elements of eligibility through a Monthly Status Report (MSR) in accordance with the schedule established by the county department of social services. If a required MSR is not returned to the county department by the deadline, a failure to file notice must be sent informing the recipient that he or she has an additional ten working days to file the MSR, and that termination from TANF will result if the MSR is not filed by the final deadline. State TANF policies require that copies of MSRs be maintained in client case files. In order for CBMS to issue a benefit to an individual who is required to submit a MSR, a county worker must indicate in CBMS that a MSR has been received and that no client status changes have occurred. In 12 of 96 cases (13 percent) totaling about \$3,530, we noted that although the information in CBMS indicated that an MSR had been received by the deadline, the county case files did not include evidence of a client MSR to support the payments in our sample. In all 12 cases, the filing deadline to submit MSRs had expired and TANF eligibility, therefore, should have been terminated if the MSRs were not received.

We determined that for 7 of the 12 instances noted above, CBMS did not generate an MSR for the recipient to complete. Department staff indicated that in order for the CBMS system to generate an MSR to be sent to a program recipient, the periodic reporting function within CBMS had to be initiated by the caseworker. However, we found that the periodic reporting function in CBMS was not initiated for cases until after the cases had been cleansed; the caseworker was required to manually send the MSR for case files not cleansed. Therefore, if the case had been cleansed, the periodic reporting function should have been activated, and if the case had not been cleansed, manual MSRs should have been in the case file. For these 7 instances, we found that as of the date of the benefit payment in our sample, the periodic reporting function in CBMS had not been initiated by the county caseworker and manual MSRs were not in the client case file.

Lack of a required Individual Responsibility Contract (IRC). TANF regulations require county departments to develop an Individual Responsibility Contract (IRC) for TANF applicants within thirty days after eligibility assessment, which is required to occur within 30 days of initial application. The IRC is to specify the terms and conditions under which a participant may receive TANF assistance, including steps for the applicant to take to secure and maintain training, education, or work. The IRC is an important federal requirement established to ensure that recipients are meeting program work goals and receiving the necessary training and education to become self-sufficient. In 11 instances totaling about \$2,500, we noted that although the benefits in our sample appeared to be paid correctly according to the eligibility information entered in CBMS, the county case files did not include the federally-required IRC. If a recipient fails to sign an IRC by the required due date, the recipient's benefits will be terminated. We noted that in all 15 cases, the filing deadline to submit an IRC before termination from the TANF program had expired; however, these clients were still receiving benefits. Therefore, we considered the \$2,500 in eligibility payments to these recipients to be questioned costs, and the payments are included in our overall summary of questioned costs noted in this report.

Missing Medicaid eligibility information. County and Medical Assistance staff are required to obtain and verify various eligibility information for Medicaid applicants including the applicant's social security number, income, and citizenship. In 44 of the 96 (46 percent) Medicaid cases we tested for claims totaling nearly \$314,000, we were unable to find necessary documentation for eligibility information in either the client file or in CBMS. While all 44 cases included a notation in CBMS that the caseworker verified the information either through a review of eligibility documentation or a system interface, there was no supporting documentation for the eligibility information in the client file. HCPF management indicates that the goal for CBMS is to become a paperless system where all necessary documentation is maintained in CBMS rather than in a paper file. However, until the point in time that

these documents can be scanned into the CBMS case file, hard copies should be maintained to support the eligibility verification. By not maintaining this support for the verification process HCPF risks not being in compliance with Medicaid eligibility requirements and incurring federal disallowances.

We noted an additional 36 instances of improper documentation, lack of documentation or incorrect data input into CBMS for Medicaid applicants. In these instances we determined the problems would not have changed recipients' eligibility for the payments in our sample and, therefore, the payments are not counted as part of our questioned costs. However, these deficiencies could potentially affect the recipients' eligibility in the future or affect other programs. The majority of these issues were cases where the recipient had reported assets, income or other items that were not recorded within CBMS. In a few cases family members were listed on the application and were not recorded in CBMS. This information may not have affected eligibility for that client or current case, but it compromises the integrity of the data in the system and does not allow the system to work as designed.

Lack of documentation significantly increases the risk of errors, fraud, and abuse. Therefore, the Departments must ensure adequate and appropriate documentation is maintained in case files in order to lessen these risks.

Recommendation No. 11:

The Department of Human Services and the Department of Health Care Policy and Financing should improve case file documentation for the Medicaid, Food Stamps, and TANF programs by:

- a. Enhancing policies and procedures requiring counties and Medical Assistance sites to maintain paper copies of required documents within a case file until such time when an electronic version can be maintained as an audit trail.
- b. Using established monitoring procedures to ensure eligibility information in CBMS is adequately supported by documentation in case files.

Department of Human Services Response:

- a. Agree. Implementation date: August 1, 2006.

The DHS Food Stamp and TANF/Colorado Works programs will jointly issue an agency letter to clarify and define policies and procedures which

direct counties to maintain copies of required documents within county files until such time as an electronic version can be maintained as an audit trail.

- b. Agree. Implementation date: August 1, 2006.

The DHS Food Stamp and TANF/Colorado Works programs will continue to monitor required documentation for case files as part of regularly scheduled program reviews.

Department of Health Care Policy and Financing Response:

- a. Agree. Implementation date: June 2006.

HCPF agrees that there is always room for improvement on case file documentation. Currently, the counties and Medical Assistance sites are required to maintain all paper copies of required documentation. However, due to case transfer issues and automatic interface updates, it is difficult to determine all the locations for the information related to the applicable period. HCPF agrees to work with the counties, DHS, and the Office of CBMS to enhance current procedures so that all required documentation supporting the data entered into CBMS can be located. HCPF's timeline is affected by these other agencies, but would attempt to have a finalized procedure by October 1, 2006.

In addition, HCPF will issue an agency letter by June 2006 and continue to reinforce the importance of collecting and keeping documentation through training and findings conducted by the Medicaid Eligibility Quality Control and Payment Error Rate Measurement reviews. HCPF is reviewing the need for a rule regarding proper documentation.

- b. Agree. Implementation date: Ongoing.

HCPF agrees with this recommendation. The Medicaid Eligibility Quality Control (MEQC) Unit has a strategy to review Medicaid eligibility data in CBMS and compare it with case file documentation for accuracy and consistency during targeted reviews. MEQC will consistently perform an active and a negative targeted review every six months. HCPF will continue to analyze its findings and provide suggestions and solutions to the counties.

MEQC is starting a program of visiting sites to work with them on errors determined during its reviews and solutions to these problems. MEQC will follow up with CBMS users to ensure that issues have been addressed and corrected. When significant errors are found, an agency letter with instructions and training is sent to all counties and Medical Assistance sites.

HCPF participates in the Payment Error Rate Measurement (PERM) project. The PERM project will have an eligibility component that will review a random set of cases for accurate eligibility determinations and information. HCPF will follow-up on any necessary actions.

Combined, these two mechanisms provide HCPF with a strategy for reviewing eligibility determinations and to identify and correct any errors that are made.

County Visits and Interviews

During our onsite visits to the seven county departments of social services in our sample, we reviewed timeframes for application processing and interviewed staff regarding CBMS-related processes within their respective counties.

Days to Process Applications

As a part of our on-site testing at the county departments of social services, we selected 10 applicants from each program at each county (210 total applicants) to test the number of days it took the county to process the application. Under federal regulations, regular applications for Food Stamps and Medicaid must be processed within 30 and 45 days, respectively, of initial application. State TANF guidelines establish a 45-day processing timeframe after initial application. Applications for expedited Food Stamps cases are required to be processed within 7 days of initial application. In each of the counties we visited, we identified applicants in our sample where the timeframe for processing the application seemed to take an unreasonably long time. However, we also identified applicants whose data was processed the day of application. The longest number of days to process in the 210 clients we reviewed was 161 days for a TANF application in one county. The highest *average* application processing timeframe was 53 days for the TANF program in one county and the lowest *average* application processing timeframe was 7 days for the Medicaid program in one county. One county was unable to provide files for several of our selections; therefore, we were unable to complete our review of application processing timeframes.

County CBMS Concerns

Interviews with county department of social services staff indicated numerous concerns regarding various aspects of CBMS. These concerns are noted below:

- CBMS does not have the capability to track applicants through the application/intake process on a county-wide basis. This process includes the completion of the initial application and the establishment of a follow-up appointment for a face-to-face interview. This means that counties lack a systematic way to track and manage the application/intake process. In the counties we visited, the process varied by county. In some counties, the process varies from caseworker to caseworker. For example, caseworkers tracked applicants by keeping a list of the case names and where each case was in the process, by keeping a case control sheet that was provided to the supervisor, or by keeping the case in a file drawer until ready for processing.
- Caseworkers are not notified when recipient letters are generated by the system. CBMS automatically generates notices to clients and inserts the caseworker's name on the letter but CBMS does not notify caseworkers when letters are generated or provide a copy of notices for the caseworker. When recipients call to follow up, the caseworker does not have a copy of the letter sent to the client; as a result, it requires additional caseworker time to research the issues and resolve them for the client.
- Timing problems may cause some cases to be erroneously closed. In some instances, cases are closed because CBMS does not show that a redetermination form has been received by the county. In some cases caseworkers may have received the redetermination packet, but they have not been able to input the information into the system in a timely manner. If data in CBMS does not indicate that a redetermination form has been received by the county for a client within the required timeframe, the system will terminate the recipient's benefits.
- Counties noted that they often did not receive timely support when contacting the help desk with CBMS questions.

The Departments report that CBMS has the capability to track applicants through the application/intake process on a county-wide basis and that caseworker notices are available electronically for caseworker review in CBMS. The county staff we interviewed did not appear to be aware of these capabilities. The Departments should work with the county departments of social services to address their concerns through training or advisory letters.

Recommendation No. 12:

The Office of CBMS, the Department of Human Services, and the Department of Health Care Policy and Financing should work with the county departments of social services and Medical Assistance sites to address Colorado Benefits Management System (CBMS)-related issues and concerns including:

- a. Continuing to monitor timeframes for processing applications to ensure processing occurs within state- and federally-required timeframes.
- b. Developing accurate and reliable reports for monitoring and tracking intake, redeterminations, and case backlogs on a caseworker and county-wide basis.
- c. Providing electronic or hard copy notices to caseworkers prior to mailing to clients, so that changes due to system issues can be identified and possibly keep client confusion to a minimum.
- d. Providing ongoing training to the counties on the correct usage of CBMS including requirements related to data entry of information for eligibility redeterminations.
- e. Ensuring counties receive timely support from the helpdesk in response to issues raised.

Office of CBMS Response:

- a. Agree. Implementation date: Implemented and ongoing.

CBMS has been running reports and will continue to run reports for each county and Medical Assistance site to monitor timeframes for processing applications to ensure processing occurs within state- and federally-required timeframes.

- b. Agree. Implementation date: July 2006.

CBMS currently has accurate and reliable reports that serve as a monitoring tool and tracks intake and case backlogs on a caseworker and countywide basis. The CBMS Redetermination Report currently does not select every case in need of a redetermination; this will be corrected by July 2006.

- c. Agree. Implementation date: Implemented and ongoing.

CBMS provides client correspondence automatically and users can review client notices prior to mailing. This functionality is covered in training classes CBMS 101, 102, and 103. CBMS functionality provides a user the ability to pull the CBMS client notice and then mail the notice to the clients themselves.

- d. Agree. Implementation date: Implemented and ongoing.

CBMS has provided and will continue to provide ongoing training on the correct usage of CBMS including requirements related to data entry of information for eligibility redeterminations. CBMS continues to urge the users to attend the training that CBMS offers. CBMS continues to have input from the Training Advisory Group (TAG).

- e. Agree. Implementation date: Implemented and ongoing.

CBMS has ongoing activities that has and will ensure counties receive timely support from the Help Desk in response to issues raised by them. We are doing an ongoing feasibility study and are in the process of completing a New Business Model which includes the Help Desk Process. Also, we are addressing old help desk tickets and closed many of those tickets dated prior to November 1, 2005. We are also posting on the DHS portal weekly help desk ticket reports to allow the user to view the status of his or her help desk ticket(s).

Department of Human Services Response:

- a. Agree. Implementation date: Implemented and ongoing.

The DHS Food Stamp and TANF/Colorado Works programs will continue to provide monitoring activities to identify issues and work with appropriate counties to ensure processing occurs within established guidelines, as appropriate.

- b. Agree. Implementation date: Implemented and ongoing.

The DHS Food Stamp and TANF/Colorado Works programs will continue to address any newly known inaccuracies with reports for monitoring and tracking.

- c. Agree. Implementation date: Implemented and ongoing.

The DHS Food Stamp and TANF/Colorado Works programs will encourage end users to access Client Correspondence Functionality that prevents notices from going out to clients.

- d. Agree. Implementation date: Implemented and ongoing.

The DHS Food Stamp and TANF/Colorado Works programs, in cooperation with the Office of CBMS, will provide needed and ongoing training to caseworkers.

- e. Agree. Implementation date: Implemented and ongoing.

DHS will continue to work with the Office of CBMS to enhance functionality and response time of the help desk.

Department of Health Care Policy and Financing Response:

- Agree. Implementation date: Implemented and ongoing.

HCPF agrees to work with DHS and the Office of CBMS to communicate better with counties and address anecdotal concerns. In addition, we note the following:

- a. Monitoring timeliness for applications has been a heavy emphasis for nearly a year and a half, and the Departments have experienced an 80 percent reduction in cases exceeding processing guidelines since February 2005.
- b. The weekly "Pending Applications Detail Report" currently does track cases in an intake mode as well as ongoing cases that are in a pending status. HCPF will publish a reminder detailing the availability and usefulness of this report to CBMS users by June 2006.

- c. CBMS already retains all correspondence generated for a case and sends alerts to technicians to notify them of changes on the case. HCPF will work with the Office of CBMS to reiterate information about this function to end users.

 - d. HCPF is committed to ongoing training in regards to the correct usage of CBMS. Many training functions take place on a monthly basis such as CBMS 101, CBMS 102, and Knowledge Transfer Conference Calls. HCPF also participates in statewide training opportunities such as Social Services Technical and Business Staff conferences. HCPF, DHS, and the Office of CBMS have formed a Training Advisory Group in response to training needs of county and Medical Assistance site staff. The Training Advisory Group conducted a survey in order to understand the training needs of CBMS users. The first deliverable is a tool to prepare the CBMS worker for a series of integrated CBMS trainings. Preliminary roll-out to counties is scheduled in April 2006 to facilitate input for future training deliverables. The final deliverable will be used to certify CBMS users.
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Fiscal Year 2005 Single Audit Testing at the Department of Human Services and the Department of Health Care Policy and Financing

Chapter 3

As noted in the Introduction, the Office of the State Auditor (OSA) is responsible for the annual audit of the State of Colorado's financial statements and for the State's annual federal Single Audit, which assesses the State's internal control and compliance with respect to federal laws and regulations. This chapter contains all findings and recommendations related to eligibility determination and the Colorado Benefits Management System that were identified during the Fiscal Year 2005 financial audit and Single Audit conducted by or on behalf of the State Auditor.

BKD LLP performed the Fiscal Year 2005 financial audit and Single Audit at the Department of Health Care Policy and Financing (HCPF) under contract with the OSA, and the finding and recommendation related to HCPF was prepared by BKD, LLP. The OSA conducted the Fiscal Year 2005 financial audit and Single Audit at the Department of Human Services, and the findings and recommendations related to DHS were prepared by the OSA.

Medicaid Eligibility Oversight

During Fiscal Year 2005 the Department of Health Care Policy and Financing (HCPF) expended over \$2.8 billion in state and federal funds for the Medicaid program. During the first two months of Fiscal Year 2005 (July 1 through August 31, 2004), as in prior years, the Department's Medicaid Management Information System (MMIS) used eligibility information in the Colorado Trails and Client Oriented Information Network (COIN) systems for processing Medicaid claims. Both systems reside within and are administered by the Department of Human Services (DHS). Colorado Trails tracks Medicaid eligibility for children within DHS' Child Welfare programs, including those within foster care homes and residential treatment centers, and for individuals within the Division of Youth Corrections; COIN tracks Medicaid eligibility for all other individuals. As noted in

the Introduction, on September 1, 2004, HCPF and DHS replaced COIN and five other systems with the Colorado Benefits Management System (CBMS).

We reviewed the Department's procedures for complying with federal requirements for determining the eligibility of the individuals who receive benefits and the providers who receive reimbursements under the Medicaid program. We performed our eligibility testing in two phases. During the first component of our testing, we reviewed a sample of 30 cases for individuals who had been determined eligible for Medicaid benefits at some point during the year. The results of that testing are discussed below. In addition, as part of the separate audit of CBMS we performed under contract with the Office of the State Auditor, we reviewed a sample of 96 additional Medicaid beneficiaries who had been determined eligible for Medicaid benefits at some point during the last 10 months of Fiscal Year 2005, or after CBMS implementation on September 1, 2004. The results of the CBMS audit testing were discussed in Chapters 1 and 2 of this report.

As mentioned above, during the first component of our testing at HCPF we reviewed a sample of 30 Medicaid cases to determine if eligibility determinations made throughout Fiscal Year 2005 were appropriate. The procedures we used to assess the appropriateness of eligibility determinations included a comparison of COIN data initially loaded into CBMS; a comparison of county case file source documentation used to input additional data into CBMS; examination of cases reviewed by county staff since CBMS implementation, or "cleansed;" and a review of eligibility redeterminations. Due to the system limitations described in Chapter 2, we, along with HCPF staff, performed numerous manual procedures in an attempt to recreate eligibility determinations for the clients in our sample. Based on our recreation of determinations, we noted one or more exceptions with 11 of the 30 cases (37 percent) reviewed. The exceptions represented questioned costs totaling \$7,778 out of a total sample of \$53,425.

The exceptions included the following:

- In 10 instances, we identified a lack of information or conflicting information in the case file and eligibility systems to support the eligibility determination. The income information in the COIN system was either unavailable or inconsistent with the data contained in CBMS, or the information in the case file did not adequately support the information contained in CBMS. In two of the ten cases, the documentation utilized by the caseworker to verify income was incorrect. In one of the ten cases, the case was reviewed by a Medicaid caseworker in January 2005 but was not processed through the eligibility calculator in CBMS until July 2005, when it was processed by a Food Stamp caseworker. When the eligibility calculation was run, the Medicaid eligibility span was overwritten by CBMS. It is unclear as to

whether the recipient should have received Medicaid benefits on the basis of the January 2005 review due to the lack of documentation in the case file and the lack of an audit trail within CBMS.

- In 1 instance, benefits were paid to an ineligible recipient after the case was “cleansed” under the Department’s “benefit freeze.” After CBMS implementation, the Department’s policy was to continue to provide benefits to recipients that were on Medicaid as of September 1, 2004, when CBMS was implemented; this was referred to as the “benefit freeze.” This “benefit freeze” allowed beneficiaries eligible for services prior to the date of the conversion to CBMS to continue to receive benefits until their case was reviewed, or “cleansed,” by a caseworker. If the caseworker determined that the individual was not eligible for Medicaid benefits, the caseworker was responsible for making appropriate changes in CBMS to discontinue the individual’s eligibility. We found that, for one case, benefits erroneously continued to be paid under the benefit freeze after the caseworker reviewed the case. This occurred because when cleansing the case, the caseworker failed to indicate in CBMS that the recipient was requesting medical assistance; as a result, Medicaid eligibility continued to be shown as pending in CBMS. Further, the recipient submitted a redetermination package that was received in the month following case cleansing, but it was not processed by the caseworker. The case should have closed in CBMS due to both the caseworker’s lack of data entry into CBMS and the caseworker’s failure to process the redetermination, but benefits continued to be paid improperly.

Further, during our testing of the 30 sample items we noted documentation errors and incorrectly paid claims for five of the sample cases for additional dates of service outside of the sample dates we initially selected for review. While these errors are not part of our sample, they are further indications of problems with eligibility data within CBMS.

Many of the above issues occurred due to the lack of adequate training of the county workers. It is important to note that eligibility determination through CBMS is a shared responsibility between the State (HCPF and DHS) and the counties. HCPF staff indicated that they believe proper training programs were provided; however, we were informed that in many instances, county workers did not attend provided training or attended early in the process prior to implementation. In our testing, we found that CBMS properly calculated eligibility based on the data that was entered. However, in the instances we have noted as errors, the data entered was incorrect based on data in the casefile or entered improperly, causing an error in the eligibility determination. In order for eligibility processing within CBMS to perform as intended, the data must be entered correctly. We believe that additional training programs should be designed to provide staff with knowledge on the proper way to

enter data into CBMS and the importance of entering data consistently and accurately. These training programs should be required for all staff working on the system.

Under the Single Audit Act and OMB Circular A-133 a material weakness is defined as a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major program, such as Medicaid, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Based on the prevalent issues noted with data entry and the audit trail of information entered into the CBMS system as noted in our testing, we have determined that the Department has a material weakness in its internal controls over compliance with eligibility determination requirements for the Medicaid program and therefore, it cannot ensure that eligibility determinations made are in compliance with federal Medicaid regulations. This creates a serious risk to the State of errors and irregularities, as well as federal disallowances.

The Department's immediate development and implementation of an adequate audit trail within CBMS is crucial to help ensure that eligibility determinations are appropriate, adequately substantiated, and that benefit payments are appropriate under state and federal laws and regulations. Additionally, an effective audit trail is crucial for the efficient use of state resources in carrying out quality control and program integrity monitoring activities to detect fraud and abuse or identify areas of concern affecting the Department's programs.

Recommendation No. 13:

The Department of Health Care Policy and Financing should improve controls over eligibility determination for the Medicaid program by:

- a. Establishing an effective means for documenting and substantiating beneficiary eligibility determinations for each paid claim. The goal should be to eliminate the need for manual interventions to recreate determinations as of the historical date of service. There should be an audit trail within the system that identifies clients' eligibility during the period of past claims paid, even in instances where current information is different or where a redetermination has been made.
- b. Identifying programming problems and eliminating areas where controls can be manually circumvented to resolve specific issues in the program eligibility determination.

- c. Reviewing eligibility data in the Colorado Benefits Management System for accuracy and consistency with source and certified documentation via scanned or copied documentation maintained in the files.
- d. Considering requiring all employees utilizing CBMS to have attended core training courses to ensure CBMS is populated with data consistently and accurately and in accordance with system parameters.

Department of Health Care Policy and Financing Response:

- a. Agree. Implementation date: March 2006.

The Colorado Benefits Management System (CBMS) has many features and functions that are used to document and substantiate beneficiary eligibility determinations at the time each claim is paid. The Governor's Office of CBMS is evaluating current CBMS audit processes in order to enhance the ability of case reviewers to access all data in CBMS that was present at the time of determination and authorization.

However, the Department believes that the auditor did not take two important caveats into account before determining that the Department should improve controls over eligibility determinations and that a material weakness in controls exists. One is that the auditor was informed that the current paper trail exists in several locations. While the Department agrees that this is inefficient and should be improved, the Department notes that the auditor did not review all paper files before concluding that there were errors in comparing with the electronic file. That is, CBMS is a real time system that is updated in various ways, such as through interfaces with the federal government, case updates performed by State staff as required by court order, and other counties and medical assistance sites. Pulling a hard copy record from one entity at a specific point in time does not necessarily make the electronic record inaccurate.

Secondly, the period included in the audit was the first ten months following the "go live" for CBMS. Prior to the audit, the auditor was informed that the period for CBMS was most volatile; many changes have occurred since that time to improve the system. The Department believes that many issues that existed in September 2004 do not exist today. It is likely that the auditor's review of 126 cases out of over 700,000 determinations that have occurred for medical programs since September 1, 2004 may not be indicative of current issues. However, the

Department agrees that the audit trail should be simplified so it is more accessible to the auditors. The Department will be submitting a system change request to the Office of CBMS in March 2006.

Auditor's Addendum:

It is the Department's responsibility to provide documentation that demonstrates payments made with state and federal funds are in compliance with laws and regulations. The Department was provided with a list of all Medicaid payments included in our sample and asked to furnish all necessary supporting documentation. Our conclusions are based on the documentation provided to us.

With respect to the time period tested, the federal Single Audit Act and Office of Management and Budget (OMB) Circular A-133 require that the Office of the State Auditor annually test and report on compliance with federal grant requirements. As a result of the high error rates related to Fiscal Year 2005 identified, the State faces the risk of substantial federal disallowances.

b. Agree. Implementation date: August 2006.

The Department agrees with the recommendation and started addressing these issues in September 2004. The Department and the Department of Human Services (DHS) have taken steps to document and formalize processes to identify and resolve programming problems and eliminate user-created processes. There are only two official procedures for manual intervention since the implementation of CBMS. These are instructions for entering non-required information into a required CBMS field when adding an Ancillary Member to a case, in the following specific situations: (1) entering the birth-date of January 1, 1851, when it is not known or available; and (2) entering Hawaii as state of birth when it is not known or it is outside the United States. A System Change Request for the first situation is in queue with an estimated completion date of August 6, 2006. A system fix was completed for the second situation in August 2005.

Identifying programming problems is an ongoing process. Users and agencies identify them during the course of software use. A county user group exists to identify, research, and review changes. The Office of CBMS runs the Change Control Board which includes state and county representatives who review and prioritize all change requests for resolving issues in eligibility determination. A more formal User

Acceptance Testing organization has been instituted to increase accuracy within the system.

- c. Partially agree. Implementation date: In process and ongoing.

The Department agrees with this recommendation since it has been reviewing eligibility in CBMS since December 2004. Medicaid Eligibility Quality Control (MEQC) will continue to review Medicaid eligibility data in CBMS and compare it with case file documentation for accuracy and consistency during targeted reviews. MEQC will continue to cite policy and data entry errors in response to case reviews. Reviewing eligibility data with case file documentation will be limited to the sample size of the review.

- d. Agree. Implementation date: September 1, 2006.

The Department agrees with the recommendation and will work with the Office of CBMS to develop a tracking system to record that all users of CBMS have completed core training classes. The Department will continue to coordinate Medicaid policy training with CBMS data entry training and support. Combined training and support will be delivered to counties and medical assistance sites through both formal and informal means. The Department will continue to work with other High Level Program Groups to ensure data consistency and accurate policy interpretation for Medicaid programs by participating in the state Training Advisory Group for CBMS users.

Federal TANF Program Overview

In 1996, Public Law 104-193, the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) established federal welfare reform requirements and created the Temporary Assistance for Needy Families (TANF) program (CFDA No. 93.558). In July 1997 the Department of Human Services implemented TANF in Colorado as the "Colorado Works" program. During Fiscal Year 2005 the Department expended approximately \$162 million in state and federal funds under the program.

The TANF program is overseen by the Department's Office of Self-Sufficiency and administered locally by the county departments of social services. Each county is responsible for maintaining and following its own county plan outlining TANF policies and procedures. The Department is ultimately responsible to the US

Department of Health and Human Services for ensuring that the State as a whole properly administers the TANF program and meets federal requirements. Because of the level of responsibility vested with the counties, the Department must effectively monitor county activities and conduct appropriate follow-up in order to meet its responsibilities.

TANF Reporting

Federal regulations require the Department, as the primary recipient of Temporary Assistance for Needy Families (TANF) funds, to meet specific program reporting requirements. In addition, the Department must have the ability to produce various reports to effectively supervise and administer the TANF program.

As noted previously, the Department of Human Services and the Department of Health Care Policy and Financing implemented the Colorado Benefits Management System (CBMS) on September 1, 2004. Prior to the implementation of CBMS, Department of Human Services staff had the ability to extract TANF data reports from its previous system, the Client Oriented Information Network (COIN). Department staff could use these reports to monitor activity at the county level and to report to the federal government. During our Fiscal Year 2005 audit, we found that CBMS does not have accurate predefined reports for many critical program areas. Predefined reports are based on predetermined logic that cannot be altered by the average user. Instead, under CBMS staff can only access critical program data through the use of ad hoc reports. Ad hoc, or user-defined reports, are created by running a query against a database and can be run at any time by users with access to the query tools. Ad hoc reports require greater expertise and resources to generate than predefined reports. Further, the use of ad hoc reports for routine monitoring activities creates a risk that reports are not standardized or accurately defined. As of June 1, 2005, Department staff can forward a request for an ad hoc report to the Office of CBMS within the Governor's Office, where a level of priority is assigned; however, this process is often not timely and does not guarantee Department staff will get the reports necessary to monitor county activity or perform routine business functions. Department staff report that as of November 2005 they have received training on CBMS' ad hoc reporting function and are able to generate a limited number of ad hoc reports themselves.

We identified four specific program areas that are lacking critical system management tools. We believe these tools are important components of an effective oversight function. These areas are discussed in detail below.

Checks on eligibility. The federal government requires that TANF recipients' income information and identity be verified through the federal Income, Eligibility,

and Verification System (IEVS) at the time of application. Through IEVS, recipients' social security numbers are matched with Social Security Administration, Internal Revenue Service, and Colorado Department of Labor and Employment records to identify instances in which program applicants have potentially understated their income and resources. Prior to the implementation of CBMS, Department staff had the ability to generate monthly reports on beneficiaries' eligibility information using IEVS. Monthly IEVS reports available to Department staff prior to CBMS implementation included the IEVS Monthly Management New Data Summary, the IEVS Monthly Management Summary of Actions Taken, and the IEVS Monthly Management Summary Overdue. These reports were used by Department staff to ensure that counties were ensuring beneficiaries met program criteria for limitations on income. The absence of the Monthly Management Summary Overdue report is of particular concern because State Rules require that county departments act on all potential eligibility problems identified through IEVS within 45 days of the receipt of such information. The lack of reporting capabilities limits the Department's ability to ensure that appropriate action is taken on information received through IEVS data matches. It also limits the Department's ability to determine whether the interface is working appropriately, as discussed further in Recommendation No. 16. If immediate action is not taken on these data matches, the Department increases its risk of providing benefits to clients who are not eligible. The Department is then responsible for identifying such overpayments and obtaining repayment.

Under federal regulations, TANF participants are limited to 60 months of TANF assistance unless the Department grants an extension as a result of extreme hardship or domestic violence. Federal regulations allow up to 20 percent of the total average monthly caseload to receive benefits beyond 60 months. Prior to the implementation of CBMS, COIN generated the "Current Clock Tick Report," which provided the Department with the number of clients receiving benefits for different lengths of time. We found that CBMS does not have a predefined report for reporting clock tick data; therefore, the clock tick data previously reported by COIN are only available to TANF staff through ad hoc reports. These data are essential for federal compliance and reporting purposes as well as for the Department's own management review needs, including identifying the number of clients receiving benefits beyond the 60-month limit. If the Department does not comply with the 60-month time limit, the federal government may enforce a fiscal penalty of 5 percent of the State's total award.

Checks on sanctions. Federal and state TANF regulations require that sanctions be imposed on those program beneficiaries who fail to comply with TANF rules regarding child support, work activities, and immunization laws. Prior to the implementation of CBMS, COIN generated the Sanction Report Detail, which provided the Department with sanction data, including total sanctions by county,

client name, and level of sanction to be served. During our Fiscal Year 2004 audit, we found that the Department had not developed and implemented a process for reviewing the TANF sanction report. The Department agreed with our recommendation and stated that staff would review the Sanction Report Detail on a regular basis to identify and investigate any discrepancies. With the implementation of CBMS, the data previously reported by COIN are only available to TANF staff through ad hoc reports. We found that the Department is not requesting ad hoc reports for sanction data and, therefore, is not completing management level reviews on a regular basis. This is problematic due to the number of sanction problems discussed in the next section of this report.

Caseload analysis. During our audit the Department was unable to provide us with caseload information for Fiscal Year 2005, including total number of clients served and the amount of benefits paid. These data are not only critical for federal reporting purposes but also for the Department's own management review needs, including for identifying trends, monitoring budgets, and identifying potential under- and overpayments.

Management of TANF overpayments. The Department is required to establish a receivable due from clients for TANF overpayments made. During our audit we reviewed journal voucher transactions that adjusted the Department's TANF receivable account and related allowance account. Receivable information is pulled from the Clients Accounts Receivable System (CARS) and compared with the amounts recorded for prior quarters, and the difference is booked in COFRS, the State's financial system. Based on our review of Fiscal Year 2005 COFRS reports, we found that the Department failed to book any adjustments for the second, third, and fourth quarters following the implementation of CBMS. According to Department staff, the reports used as the basis for making these entries are not available in CBMS, unlike they previously were in COIN. Staff indicated that a request for this report has been submitted to the Office of CBMS but that it has been given a low priority.

We consider the Department's lack of adequately developed basic automated tools to manage one of the State's largest benefit programs to be a material weakness in internal control over compliance with federal reporting requirements under the Single Audit Act and OMB Circular A-133. This control weakness creates a risk of federal disallowances and an increased risk of fraud. Further, the Department's ability to accurately budget, record, and report TANF data is limited. Therefore, it is imperative that the Department ensure that critical predefined reports for the TANF program are provided in all critical reporting areas and that TANF staff have the ability to create their own defined ad hoc reports.

Recommendation No. 14:

The Department of Human Services should ensure it is in compliance with federal reporting requirements for the Temporary Assistance for Needy Families (TANF) program by:

- a. Immediately addressing Colorado Benefits Management System (CBMS) reporting deficiencies and ensuring that critical predefined reports for sanctions; the Income, Eligibility, and Verification System (IEVS); caseload; clock tick; and accounting-related data are programmed into the system.
- b. Reviewing monthly critical reports, including those on sanctions, IEVS verifications, and length of benefits, for identifying and investigating discrepancies and monitoring for federal compliance.
- c. Reviewing monthly TANF sanction reports and identifying and investigating discrepancies.

Department of Human Services Response:

- a. Agree. Implementation date: September 30, 2006.

The Department agrees that predefined and ad hoc reports are critical to the overall management of its TANF Program. Significant progress has been made since the close of the audit period to address these specific reports. The Department will continue to work to address the critical predefined and ad hoc reports with emphasis on the sanctions, caseload, IEVS and clock tick reports. The Department will submit any remaining relevant Change Requests to the Office of CBMS by March 31, 2006 and request that changes be implemented by May 31, 2006.

- b. Agree. Implementation date: September 30, 2006.

As critical reports are made available, program staff will regularly review the reports for identification and investigation of any client or user discrepancies and will monitor county activity to assure federal compliance.

- c. Agree. Implementation date: September 30, 2006.

Program staff will review TANF sanction reports monthly and identify and investigate any discrepancies found.

TANF Program Sanctions

Federal TANF regulations require that sanctions be imposed on those program beneficiaries who fail to comply with TANF rules regarding child support, work activities, and immunization laws. In order to comply with federal regulations, the Department has developed a policy that gives the county departments the authority to impose sanctions on all TANF applicants or participants who do not adhere to these rules. Counties may determine the length of the sanction, establish the circumstances surrounding the sanction, and define good cause for sanction. The Department has established the following three levels of sanctions:

- **Level One Sanction.** The TANF recipient is placed on a level one sanction for his or her first program violation. At this level, the individual's cash assistance payment is reduced by 25 percent for a minimum of one month but not more than three months.
- **Level Two Sanction.** This level is applied when a recipient receives his or her second program violation and requires a 50 percent reduction in the individual's cash assistance payment. This sanction is imposed for a minimum of one month but not more than three months.
- **Level Three Sanction.** This level is for a TANF recipient who has violated TANF program rules three or more times. This level results in the termination of the individual's benefits for a minimum of three months but not more than six months.

Child support sanctions are transmitted to the Colorado Benefits Management System (CBMS) via an interface with the Automated Child Support Enforcement System (ACSES), while immunization and work-related sanctions are entered directly into CBMS by county TANF staff. CBMS takes these data and calculates the appropriate sanction level, the time to be served, and the dollar amount of benefits to be withheld.

During the audit we requested detailed sanction data from the Department. As discussed in our previous comment, CBMS does not contain a predefined report with detailed sanction data. Based on our request for sanction data, the Department requested from the Office of CBMS ad hoc reports containing sanction data for several months during Fiscal Year 2005. We compared the sample of ad hoc

sanction reports from CBMS during Fiscal Year 2005 with a sample of sanction reports generated by COIN during Fiscal Years 2003 and 2004. We found that the number of sanctioned participants significantly decreased subsequent to the implementation of CBMS. The following table provides a month-to-month comparison of CBMS and COIN data:

Department of Human Services Comparison of TANF Sanctions Data					
Client Oriented Information Network (COIN) (Pre-CBMS)		CBMS			
Month	Total Cases	Month	Total Cases	Decrease in Cases Reported Under CBMS	Percent Decrease
December 2002	411	December 2004	13	398	97%
June 2003	601	June 2005	107	494	82%
September 2003	469	September 2004	4	465	99%
May 2004	612	May 2005	62	550	90%

Source: OSA analysis of COIN and CBMS data.

As the table shows, sanctions applied in all four of the sample months were reported as drastically fewer under CBMS; for two of the selected months, the decrease reported by CBMS was nearly 100 percent from prior years. Department staff reported that the decrease in sanctions was due in part to interface problems between CBMS and ACSES. Specifically, staff reported that in some cases sanction data transmitted from ACSES to CBMS caused CBMS to automatically close cases, while in other cases sanctions data in ACSES did not transmit to CBMS at all. The Department reported that as of the end of our audit, all necessary data were still not being transmitted appropriately from ACSES to CBMS.

The Department also reported that a benefit freeze instituted by the Department after CBMS implementation contributed to a reduction in TANF sanctions. Specifically, the Department issued a benefit freeze that allowed every beneficiary eligible for services prior to the date of the switchover to CBMS at the beginning of September 2004 to remain eligible until his or her case was reviewed, or “cleansed,” by a caseworker. A court order issued in December 2004 required the Department to continue the benefit freeze until such time as the court determined. Department staff, therefore, did not enforce sanctions for any beneficiary whose case had not been cleansed.

Overpayments to TANF Participants

During the audit we reviewed 36 sanctions for TANF recipients in 10 counties across the State to determine if recipient benefits were appropriately reduced when program rules were violated. This review consisted of 19 level one sanctions, 9 level two sanctions, and 8 level three sanctions. Of the 36 sanctions reviewed, 11 (31 percent) were not applied appropriately, resulting in \$1,300 in overpayments and \$118 in underpayments to TANF recipients. We identified three primary causes for the non-compliance as discussed below.

- **Circumvention of CBMS controls.** We identified three cases in which a TANF participant's benefits were not appropriately reduced because a county caseworker circumvented CBMS controls. In all three cases, CBMS had calculated the appropriate withholding based on the sanction; however, prior to payment authorization, the county caseworker deleted the sanction from the system. As a result, approximately \$220 of inappropriate payments were provided to participants who should have been serving a sanction. In one of the three cases, the participant had been placed on a level two sanction and received a 50 percent reduced benefit; however, rather than reducing the participant's benefits, the caseworker deleted the sanction and authorized the full benefit. Further, the caseworker reinstated the sanction in the system two months later, although the client was no longer participating in the program and was, therefore, not receiving benefits.

Although CBMS has the ability to record case notes, Department staff indicated that this function is rarely used by county workers. As a result, the Department was unable to provide documentation supporting the caseworkers' decisions to delete these sanctions. Further, Department staff report that prior to the implementation of CBMS, authority to delete sanctions was limited to select county staff or state-level staff. This policy was not carried forward following the implementation of CBMS, which means that caseworkers may make adjustments to sanctions without any supervisory review. This greatly increases the risk of payments to ineligible individuals through both error and intentional misuse. The Department should immediately institute a supervisory review process over the deletion of sanctions and research the current CBMS functionality to determine the feasibility of changing the system to limit the ability of county staff to delete sanctions from CBMS.

Additionally, during our Fiscal Year 2004 audit, we found that a county caseworker inappropriately and intentionally circumvented TANF system controls to reinstate benefits of a sanctioned participant. We recommended that the Department formally incorporate reviews of sanctions as part of the

current on-site monitoring process, including ensuring that counties have sufficient supervisory reviews over sanctions in place and that counties take steps to address any noted deficiencies related to sanctions. The Department agreed with the recommendation; however, as of the end of our Fiscal Year 2005 testwork, the Department had not yet formally incorporated reviews of sanctions into its county monitoring process. While the Department was able to provide an updated on-site monitoring tool that included questions regarding sanctions, this tool had not been implemented during Fiscal Year 2005.

- **CBMS errors resulting in overpayments.** We found six cases in our sample of 36 (17 percent) in which system errors resulted in a total net overpayment of \$981. In four of the six cases, clients were overpaid a total of approximately \$1,100. In two of the six cases, the client's benefits were inappropriately reduced in excess, resulting in a total underpayment of \$118. Department staff report that a "pass-fail-pass" CBMS system error caused CBMS to erroneously pay an incorrect benefit amount in five of the cases noted. The "pass-fail-pass" error occurs when CBMS pays benefits based on a previous system decision and ignores the most recent decision. For example, if a client was failed or sanctioned based on updated information, CBMS would ignore the current decision and make a payment based on previous data that had resulted in a normal benefit amount.

In the sixth case, CBMS calculated the sanction amount based on an incorrect grant amount. Specifically, the sanction should have been calculated using a gross grant amount of \$356; however, a system error caused CBMS to calculate the sanction based on a gross grant amount of \$288. As a result, the client received a \$10 underpayment. Department staff were unable to provide an explanation as to what caused the system error.

- **Incorrect data entry.** County caseworkers are responsible for entering work-related and immunization sanctions into the "Collect Individual Compliance Detail Screen" in CBMS. According to Department staff, this is the only screen in which sanction data should be manually entered. However, we identified two instances in which a caseworker entered sanction data into the "Display Sanctions," "Disqualification," and "POI" screens. As a result, CBMS did not read the data correctly and calculated an incorrect payment in each instance. We determined, based on additional documentation provided by the Department, that the two benefit payments received by the client noted were the correct amounts; however, staff were unable to explain how this occurred, since the CBMS calculation was incorrect.

Although Department staff reported to us that the “Display Sanctions,” “Disqualification,” and “POI” screens should not be available to caseworkers for data entry, we noted as of the end of our audit work that these screens remained available for caseworker data entry and could, therefore, result in future sanction payment errors.

The Department must immediately address all issues related to TANF sanctions in order to avoid future fiscal penalties that could be imposed by the federal government for program noncompliance and to reduce the risk of error and intentional circumvention of controls.

Recommendation No. 15:

The Department of Human Services should improve controls over sanctions for the Temporary Assistance for Needy Families program and ensure compliance with federal requirements by:

- a. Identifying and correcting Colorado Benefits Management System (CBMS) errors that are causing inappropriate benefit payments to be made.
- b. Investigating and correcting problems with the Automated Child Support Enforcement System to CBMS interface to ensure all appropriate information is being transferred.
- c. Providing training and technical assistance to all county caseworkers on the correct way to enter sanction data into CBMS.
- d. Formally incorporating reviews of sanctions as part of the current on-site county monitoring process and following up on problems as appropriate. This should include ensuring that counties have sufficient supervisory reviews over sanctions in place and that counties take steps to address any noted deficiencies related to sanctions.
- e. Researching the current system functionality to determine the feasibility of changing the system to limit the ability of county staff to delete sanctions from CBMS and requiring that the case note function be used when deletions are made to a participant’s case.

Department of Human Services Response:

- a. Agree. Implementation date: February 15, 2006.

A system error called “pass-fail-pass” was identified and appropriate action was taken to correct the problem. The Department will continue to work with the Office of CBMS to assure that accurate system-generated payments are made.

- b. Agree. Implementation date: February 15, 2006.

The ACSES to CBMS interface problem has been corrected and appropriate information has been transferred properly.

- c. Agree. Implementation date: September 30, 2006.

The Department, through the Colorado Works Program, will continue to provide training and guidance to all county caseworkers on the correct way to enter sanction data into CBMS.

- d. Agree. Implementation date: September 30, 2006.

The Department, through the Colorado Works Program, will formally incorporate reviews of sanctions as part of its County Program Review process starting March 13, 2006, and will address any and all deficiencies found.

- e. Agree. Implementation date: September 30, 2006.

The Department, through the Colorado Works Program, will direct county caseworkers to use the case note functionality when deletions to sanctions are made to a participant’s case. The Department will research the current system functionality and determine by August 31, 2006, the feasibility and wisdom of changing the system to limit county staff access to delete sanctions from CBMS.

Verification of Eligibility

The federal government requires that TANF recipients’ income information and identity be verified through the federal Income, Eligibility, and Verification System (IEVS) at the time of application. IEVS provides states with income information on TANF applicants from the Social Security Administration, Internal Revenue Service, and the Colorado Department of Labor and Employment. Through IEVS, recipients’ social security numbers are matched with these agencies’ records to identify

instances in which TANF applicants have potentially understated their income and resources.

The Department of Human Services has reported that the Colorado Benefits Management System (CBMS), implemented by the Department on September 1, 2004, was programmed to meet federal IEVS requirements by having the capability to collect the social security number for all individuals approved for public assistance and compare the information with the IEVS files. CBMS should alert program caseworkers of all cases containing discrepancies. Caseworkers are responsible for resolving any discrepancies. During the audit, however, we found that the CBMS to IEVS comparisons were not working in all instances.

First, we noted that the State Data Exchange, or SDX, IEVS component interface with the Social Security Administration (SSA) was not operating after CBMS implementation on September 1, 2004. The SDX interface allows the SSA to provide CBMS with eligibility, payment, and demographic data relating to Supplemental Security Income (SSI) recipients. Since this interface was not operational during the fiscal year, the Department was unable to verify SSI for TANF applicants. As a result, the Department was not notified of any instances in which TANF applicants received SSI that they did not report that may have affected their TANF eligibility.

Second, we found that the Beneficiary Data Exchange, or BENDEX, IEVS component interface with the SSA was not operating after CBMS implementation on September 1, 2004. The BENDEX interface allows the SSA to provide CBMS with SSA-reported income, such as Social Security Disability Income (SSDI) for comparison with applicant-reported income.

Finally, we identified one instance in which the IEVS interface did not identify a discrepancy in earned wages for a TANF applicant. Although the client had reported the wages and provided pay stubs, the caseworker failed to enter the income into CBMS. If working properly, the IEVS to CBMS interface would have identified the unreported income and CBMS would have sent an alert to the caseworker. However, since the interface was not working, the client was overpaid \$70 and the overpayment was not identified by the Department.

Under federal regulations, states can be penalized 2 percent of the total TANF grant aware for failure to conduct IEVS matches. For Colorado, this would result in a penalty of nearly \$3 million for federal fiscal year 2005. Further, the Department has chosen to use IEVS to verify data for applicants for its Food Stamps, Assistance to the Needy Disabled, Aid to the Blind, and Old Age Pension programs. Therefore, the Department risks not identifying ineligible applicants for those programs as well. The Department must immediately address the problems with the IEVS interface to

ensure it identifies potential benefit overpayments due to income discrepancies. Further, the Department should take steps to ensure caseworker supervisors are notified of income discrepancies to reduce the risk of potential fraud by caseworkers who intentionally understate applicants' income.

Recommendation No. 16:

The Department of Human Services should ensure that it is in compliance with federal Income, Eligibility, and Verification System (IEVS) requirements by immediately addressing the problems with the interface between IEVS and the Colorado Benefits Management System to ensure that all data are verified.

Department of Human Services Response:

Agree. Implementation date: December 3, 2005.

The Department has already addressed the problems with the interface between IEVS and the CBMS to ensure that all data is verified. A CBMS application release on the IEVS interface occurred December 3, 2005, and is available in CBMS.

On-Site Monitoring of County Food Stamp Activities

In Fiscal Year 2005 the Department of Human Services provided over \$307 million in benefits to eligible households under the federal Food Stamp program and expended approximately \$36 million for the administration of the program. The Food Stamp program was designed to help low-income households buy food. Eligible families are provided with Electronic Benefit Transfer (EBT) cards that can be used to purchase food at participating grocery stores through the use of point-of-sale terminals. Colorado contracts with a vendor, currently JP Morgan, for its EBT payment processing. Colorado's Food Stamp program is overseen by the Department's Food Assistance Programs Division within its Office of Self-Sufficiency. It is administered locally by the county departments of social services.

To ensure that the Food Stamps program is administered appropriately, federal regulations require states to have an effective system in place for monitoring the Food Stamps program. As part of our Fiscal Year 2005 audit, we reviewed the Department's supervision and administration of the Food Stamps program. We found

that the Department is not adequately monitoring county Food Stamps activities. Specifically, we found the following deficiencies:

1. **The Department discontinued on-site monitoring efforts previously in place.** While Department staff have historically performed on-site monitoring at county departments of social services, and they had scheduled 22 on-site county reviews of the Food Stamps program for Fiscal Year 2005, Department staff visited only four counties during the Fiscal Year. Further, of the four reviews completed, only two were completed subsequent to the implementation of the Colorado Benefits Management System (CBMS) on September 1, 2004. This is extremely troubling due to the problems we identified through our audits of the Department and CBMS specifically as discussed elsewhere in this report section.
2. **For one of the four county reviews completed, the Department failed to issue a final monitoring report.** The on-site review for this county was completed in January 2005; however, as of the end of our audit testwork nearly eight months later, the Department still had not issued a final report to the county to communicate identified problems to county staff. A Department agency letter establishes a goal that final reports be issued to counties within 60 days of completing the review. Without a final report, there is no assurance a county will address problems identified by the Department.
3. **For one of the four county reviews, the Department failed to properly follow up with findings and recommendations.** The Department noted in this county's report that the working inventory of EBT cards was not being kept secure and mandated that the county submit a corrective action plan to the Department within 30 days of the report. However, Food Stamps staff were unable to demonstrate that a corrective action plan was ever received from the county or that staff otherwise followed up with the identified deficiencies. This is of special concern given the seriousness of the deficiencies noted and the potential for misappropriation of assets.

Food Stamp Error Rates

The Department's role in ensuring that Food Stamp payments made are appropriate and to eligible individuals is critical because the federal government can issue financial sanctions against a state in which the payment error rate exceeds the average error rate across all states for the same period. The Department's own Quality Assurance Division compiles Food Stamp error rates based on statistically valid samples of payments. The United States Department of Agriculture, which

oversees the Food Stamps program, assigns final error rates based on its review of the sample data.

We noted that the Department is at risk of receiving a fiscal sanction from the US Department of Agriculture (USDA) for its federal fiscal year 2005 negative error rates. The negative error rate measures the number of cases that are denied or closed inappropriately during a federal fiscal year. During our audit the USDA placed the Department on a corrective action plan for its high negative error rate for the first nine months of federal fiscal year 2005. The State's negative error rate was approximately 13 percent for that period compared with a rate of 1.91 percent for federal fiscal year 2004.

The Department reports that it monitors error rates through its on-site county reviews as well as through reviews of available CBMS reports. However, as noted above, the Department performed only two on-site county reviews after CBMS implementation. Therefore, the Department lacks timely, critical data for identifying areas of county noncompliance and other aspects, such as inappropriate case closures, that may be resulting in the high error rate.

The Department must immediately reinstate its on-site county monitoring activities to ensure that county activities are in compliance with state and federal requirements and that error rates are reduced.

Recommendation No. 17:

The Department of Human Services should improve controls over the Food Stamps program to ensure compliance with federal and state regulations by:

- a. Reinstating on-site management evaluation reviews of county Food Stamps program activities.
- b. Completing review reports and citing counties for all instances of noncompliance with Food Stamp policies and regulations within 60 days after the review.
- c. Ensuring corrective action plans for all areas of noncompliance are received from counties within 30 days of the issuance of the monitoring report.
- d. Addressing the underlying causes of rising error rates to lower the rates and to ensure that the State does not incur future federal sanctions.

Department of Human Services Response:

- a. Agree. Implementation date: January 31, 2006.

On-site management evaluations have been reinstated effective January 2006. A revised review schedule for federal fiscal year 2005 through federal fiscal year 2007, which has been approved by the federal office, is complete. Additional counties have been added to each quarter to make up for the reviews that were not completed last year. Three FTE have also been requested to adequately staff the program so that management evaluations, along with technical assistance and training, can be adequately provided to the counties.

- b. Agree. Implementation date: January 31, 2006.

Written evaluations of the Management Evaluation findings will be completed within 60 days of the completion of the review. Evaluation tools are currently being revised to more adequately reflect new business practices since the implementation of CBMS.

- c. Agree. Implementation date: January 31, 2006.

Counties will be required to respond in writing within 30 days of the receipt of the written evaluation. All compliance issues must be addressed as well as best practice suggestions. Counties will be required to outline the actions that need to be taken to bring operations into compliance as well as the timeframes to accomplish these tasks. The State Food Stamp Program will review and approve the response. Follow-up will also be provided by the State, within an agreed upon timeframe, to ensure objectives are being met. Further corrective action may be taken if the county remains out of compliance.

- d. Agree. Implementation date: December 15, 2005.

The State Food Stamp Program submitted a Corrective Action Plan to the federal office that was approved in December 2005. This plan outlines the specific actions the state will take in order to bring the program into compliance. The Food Stamp Program has also requested numerous automated system enhancements to resolve problems that can contribute to the error rate.

Federal Food Stamps Reporting

The Department is required by federal Food Stamps regulations to submit a monthly Food Stamp Program Issuance Reconciliation Report (FNS-46) to the federal Food and Nutrition Services (FNS). The FNS-46 report reflects the total Food Stamps benefits (“issuances”), benefit returns, and unauthorized issuance amounts resulting in the net federal obligation. Also, the Department must submit a Status of Claims Against Households report (FNS-209) at the end of each quarter of the federal fiscal year. The Department is required to establish claims against Food Stamps beneficiaries for overpayments received through agency errors, beneficiary errors, and/or fraud. The FNS-209 report contains the current total balance for all outstanding overpayment claims, claims established, collections, any balance and collection adjustments, and the amount of collected repayments to be retained by the Department. During our Fiscal Year 2005 audit, we noted problems with FNS-46 and FNS-209 reports submitted by the Department to FNS. These problems are discussed in detail below.

Food Stamp Program Issuance Reconciliation Report (FNS-46). As discussed previously, on September 1, 2004, the Department replaced several of its existing eligibility systems, including its Food Stamps eligibility system – County Automated Food Stamps System, or CAFSS – with the Colorado Benefits Management System (CBMS). Prior to CBMS implementation, CAFSS generated a monthly participation report that captured Food Stamps benefits authorized by county staff during the month. Department staff compared authorized benefits reported on the CAFSS participation report with benefit payments reported by Colorado’s EBT vendor, JP Morgan, and investigated and resolved any discrepancies before submitting the data on its FNS-46 report. We identified two problems with the Department’s FNS-46 reporting. First, we found that Department staff have not reconciled total issuances reported by CBMS with total issuances reported by the EBT vendor since CBMS implementation. According to Department staff, the participation report generated by CBMS does not capture the data necessary to perform a reconciliation. Therefore, the Department has included on its FNS-46 report unverified data reported by the EBT vendor. Without reconciling the data reported by the EBT vendor with CBMS system information, the Department does not have assurance that the issuance data reported are accurate.

Second, we identified mathematical errors on FNS-46 reports reviewed during our audit. We selected and reviewed three FNS-46 reports covering three months of Fiscal Year 2005. We found mathematical errors on two of the three reports (67 percent). These errors resulted in the Department’s understating total issuance to the federal government by approximately \$4.6 million.

Status of Claims Against Households (FNS-209). Federal regulations require that the Department establish, collect, and efficiently manage Food Stamp recipient claims. As noted above, claims result from overpayments to beneficiaries. They are recouped by the Department via tax intercepts, EBT card repayments, and benefit withholdings. During the audit we identified two primary concerns related to the Department's ability to report accurate claims data as required by the federal government. While the Department reports the benefit withholding function within CBMS is working properly, we found that the other two sources of recoupment are not functioning as intended. Specifically:

- **CBMS does not generate a detailed report of tax intercept data.** Prior to the implementation of CBMS, tax intercepts were fed from the Department of Revenue into the State's financial system, COFRS. At the same time, a file was sent to CAFSS and that system matched the Department of Revenue collection data to detailed data on outstanding claims within CAFSS. CAFSS provided detailed reports of all intercepts that had been matched with outstanding claims. Department staff compared this report with the detailed transactions in COFRS and investigated any discrepancies. We found that CBMS does not generate detailed reports of tax intercepts matched with outstanding Food Stamp claims. As a result, Department staff do not have the necessary data to identify differences and to reconcile accounts or to accurately compile the FNS-209 report.
- **CBMS does not match EBT card benefit reductions to outstanding claims data.** When a county recoups an overpayment by reducing benefits on a client's EBT card, CBMS should automatically match that benefit reduction to an outstanding claim in CBMS. Department staff report that this function was not working properly during Fiscal Year 2005. As a result, Department staff do not have the necessary data to reconcile benefit reductions or to accurately compile the FNS-209 report.

We also noted that staff were unable to make accounting adjustments for overpayment recoveries timely. Department policy requires an adjustment be made to accounts receivable from clients for Food Stamps overpayments and the associated allowance account on a quarterly basis. Department accounting staff report that they base this adjustment on data reported on the FNS-209 report. Due to the problems identified with the data integrity of the FNS-209 report after CBMS implementation, Department staff were nearly three months late booking adjustments for the quarter ended December 31, 2004, and they failed to record adjustments for the quarters ended March 31 and June 30, 2005.

Federal regulations require that the State maintain effective fiscal controls and accounting procedures to ensure reports are accurate and demonstrate accountability

for how state and federal funds are used. Further, the federal government can sanction the State for noncompliance with reporting requirements.

Similar to the results of our testing of the TANF program reported earlier, we consider the Department's lack of adequately developed basic automated tools to manage the Food Stamps program, one of the State's largest benefit programs to be a material weakness in internal controls over compliance with federal reporting requirements under the Single Audit Act and OMB Circular A-133. This internal control weakness creates a risk of improper benefit payments and federal disallowance against the State, as well as an increased risk of fraud. Further, the Department's ability to accurately budget, record, and report Food Stamps data is limited. Therefore, it is imperative that the Department immediately address CBMS reporting deficiencies by ensuring that critical predefined reports for the Food Stamps program are provided and that reports are accurate.

Recommendation No. 18:

The Department of Human Services should strengthen its controls over federal reporting and immediately address Colorado Benefits Management System (CBMS) reporting deficiencies for the Food Stamps program by:

- a. Ensuring that validated reports are programmed into CBMS so that Department staff have the data necessary to accurately prepare federal Food Stamps reports and perform routine accounting entries.
- b. Documenting specific procedures for the preparation of the Food Stamps Issuance Reconciliation Report and preparing the report timely.
- c. Requiring that the Food Stamps Issuance Reconciliation Report be reviewed by knowledgeable personnel prior to submission to ensure accurate information is reported to the federal government.

Department of Human Services Response:

- a. Agree. Implementation date: July 31, 2006.

Since September 2005, the State Food Stamp Program has been participating in weekly meetings with the Governor's Office of the Colorado Benefits Management System and federal Food and Nutrition Service staff (FNS) to address and correct this issue. Work is in progress to continue to re-map and verify data required to accurately compile the

reports. The State Food Stamp Program has also requested automated system change controls to correct problems.

- b. Agree. Implementation date: April 30, 2006.

Modifications necessary for correction to the FNS-46 report have been made in CBMS and are now being tested. Validation of the changes will occur in March 2006.

- c. Agree. Implementation date: November 30, 2005.

As of September 2005, the Food Stamps Issuance Reconciliation Report is now data-entered into a federal automated system. This system checks for errors before the data can be saved. The information also has to be certified by a State Food Stamp supervisor before it is accepted by the automated system.

ATTACHMENT A

Listing of Programs Supported by the Colorado Benefits Management System

High-Level Program Groups (HLPG) with their individual Programs

	HLPG – Colorado Works		HLPG – Adult Financial		HLPG-Low-Income Subsidy
1	Basic Cash Assistance	27	Old Age Pension (OAP) A Home Care Allowance (HCA)	59	Aid to the Blind (AB) SSI/CS Blind Adult Foster Care
2	State Diversion	28	OAP A Adult Foster Care	60	AB SSI/CS Blind NF PNA
3	Emergency Assistance for Legal Immigrants	29	OAP A PNA	61	AB SSI/CS Blind
4	Workforce Development	30	OAP A	62	AB SSI/CS Grandfathered
		31	OAP B HCA	63	State AND Disabled HCA
5	HLPG – County Diversion	32	OAP B Adult Foster Care	64	State AND Disabled PNA
		33	OAP B PNA	65	State AND Disabled
6	HLPG – Family Preservation	34	OAP B	66	State AND Disabled
		35	OAP C	67	Medically Correctable
	HLPG – Food Stamps	36	Aid to the Needy Disabled (AND) SSI/CS Disabled HCA	68	State AB Blind HCA
7	Regular Food Stamps	37	AND SSI/CS Disabled AFC	69	State AB Blind PNA
8	Expedited Food Stamps	38	AND SSI/CS Disabled PNA	70	State AB Bind
9	Disaster Food Stamps	39	AND SSI/CS Disabled	71	AB Treatment
10	Employment First	40	AND SSI/CS Grandfathered	72	Repatriate
		41	Aid to the Blind (AB) SSI/CS HCA	73	Emergency Assistance for Legal Immigrants
				74	Burial

	HLPG – Family Medical (Medicaid)		HLPG – Adult Medical		HLPG – Long-Term Care
11	Psych <21	42	Supplemental Security Income (SSI) Mandatory	75	NF/30 Day Medicaid
12	1931	43	SSI Mandatory: Zebley	76	Home and Community- Based Services (HCBS) Elderly Blind & Disabled
13	Transitional Med	44	SSI Mandatory: DAC	77	HCBS Developmentally Disabled
14	4-Month Extended	45	Pickle	78	HCBS Supportive Living Services
15	Qualified Pregnant Women	46	Qualified Disabled Widow	79	HCBS Mental Illness
16	Expanded Pregnant Woman	47	OAP-B Med	80	HCBS Brain Injury
17	Prenatal State Only	48	OAP-A Med	81	HCBS Persons Living With AIDS
18	Eligible Needy Newborn	49	OAP-A Med >65 Psych	82	HCBS Program of All-inclusive Care for the Elderly
19	Qualified Child	50	OAP-A Med Grandfathered	83	HCBS CHCBS
20	Ribicoff Child	51	OAP-HCP (B)	84	HCBS CHRP
21	Expanded Child	52	OAP-HCP (A)	85	HCBS Childrens' Extensive Support
22	Refugee	53	Child Welfare Sub Adopt SSI Eligible	86	HCBS CMS
		54	Breast & Cervical Cancer Program	87	HCBS CDCE
		55	Refugee		

	HLPG – Presumptive Eligible (Medicaid)		HLPG-Children's Health Plan + (CHP+)		HLPG-Medical Savings Plan
23	Breast & Cervical Cancer Presumptive – PE	56	CHP+	88	Q1-2
24	Pregnant Woman – Initial	57	CHP+ Prenatal	89	Qualified Medicare Beneficiaries
25	Pregnant Woman – Extended	58	Family Planning Waiver	90	Special Low-Income Medicare Beneficiaries
26	CHP+ Prenatal PE			91	Q1-1
				92	Qualified Disabled Working Individuals

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