

STATE AUDITOR
ROBERT R. PETERSON



PHONE
(701) 328-2241
FAX
(701) 328-1406

STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVE. - DEPT. 117
BISMARCK, ND 58505

THE STATEWIDE SINGLE AUDIT

Prepared for the Government Finance Committee

Prepared by: Cindi Pedersen, Audit Manager

October 7, 2015

The Single Audit Act was enacted by the federal government to streamline and improve the effectiveness of audits of federal awards. The Single Audit Act and OMB Circular A-133 require auditors to perform single audits of federal awards in accordance with *Government Auditing Standards*. The federal OMB issued Circular A-133 to establish audit guidelines and policy for a uniform system of auditing states, local governments and not-for-profit entities that expend federal awards.

Most states must undergo a single audit on an annual basis. North Dakota is one of two states who qualify for an exemption to the annual audit requirement and is on a biennial basis. The most recent single audit completed for North Dakota covered fiscal years 2013 and 2014.

In fiscal year 2014, the State of North Dakota spent just under \$1.6 billion dollars in federal assistance. Over 70 % of the federal dollars were spent at 3 agencies:

- Department of Human Services - \$730 million
- Department of Transportation - \$301 million
- Department of Public Instruction - \$127 million

A complete listing of state agencies and the amount of federal funds expended by each is attached.

The State receives federal assistance under hundreds of different programs. We are required, when planning the audit, to determine which programs will be considered "major" programs and those are the programs on which we focus the audit work. The determination of which programs are major takes into account the amount of dollars expended under the program as well as some risk factors such as if there were any findings for that program in the previous audit. In the 2013-2014 single audit there were 33 major programs.

When performing a single audit, we are required to obtain an understanding of the internal control over compliance for each major program and test the effectiveness of those controls.

We are also required to determine whether agencies have complied with laws and regulations pertaining to the federal awards that have a direct and material effect on each of their major programs.

The principal tool we use when auditing compliance is the Compliance Supplement that is issued by the federal OMB. The Compliance Supplement has identified 14 different compliance requirements that must be considered in every single audit. Some of these compliance requirements may not be applicable to every major program.

The audit requirements for single audits have continued to grow each year. When Recovery Act funding was given out by the federal government they issued new requirements we had to audit compliance with. As the Recovery Act funding was winding down, the federal government issued new audit requirements under the Federal Funding Accountability and Transparency Act. Now they have passed the Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards.

It took 9,100 hours to complete the 2003-2004 single audit. The 2013-2014 single audit took 15,900 hours.

The single audit report includes our report on compliance and on internal controls, a Schedule of Expenditures of Federal Awards, and a Schedule of Findings and Questioned Costs.

There were 53 findings reported in the 2013-2014 single audit, 22 of which were repeat findings from the previous audit.

We issued a qualified opinion on the Medicaid program because of 3 findings of material non-compliance.

I'll briefly summarize those 3 findings.

Finding #1 –

Federal regulations require states to have methods and criteria for identifying suspected fraud cases in the Medicaid program. One of those methods is a properly designed and executed sampling plan.

The Surveillance and Utilization Review Section, which will be referred to as SURS, of the Department of Human Services did have a properly designed sampling plan, but the plan was not executed properly to identify suspected cases of fraud.

The recommendation to the department is:

We recommend the Department of Human Services ensure the SURS sampling activities are executed in accordance with the SURS sampling plan by ensuring:

- Sampling activities are properly documented;
- Samples are expanded when errors are detected;
- Quarterly audits are performed every quarter;
- Sampling results are tracked in a manner to identify patterns of fraud and abuse; and
- Conclusions and actions taken to identify fraud and abuse are sufficiently documented.

DHS's response to the recommendation is that they will ensure the sampling activities are executed in accordance with the sampling plan.

Finding #2 –

Federal regulations require states to perform a preliminary investigation of fraud or abuse reported to them and determine if a full investigation is warranted. If so, they are to either perform the investigation or refer the case to the appropriate law enforcement agency.

In 10 of the 20 cases reviewed during the audit, SURS did not sufficiently document and conduct preliminary investigations, nor did they have documentation to indicate if cases were referred to the proper law enforcement agency if necessary.

The recommendation to the department is:

We recommend the Department of Human Services ensure preliminary investigations are properly documented and performed on all cases of fraud and abuse referred to the unit, determine whether there is a sufficient basis to warrant a full investigation, and, when necessary, refer those cases to the proper authorities.

DHS's response to the recommendation is that they will continue to improve their process for documenting the preliminary investigations and when necessary perform full investigations or ensure they are referred to the proper authorities.

Finding #3 –

Federal regulations require the SURS unit be sufficiently organized outside the control of other Medicaid operations to objectively perform their function. We noted:

- The SURS unit is organized within the Medical Services Division.
- The Director of Medical Services supervises the Program Integrity Unit Administrator, who, in turn, supervises the SURS Administrator.
- All quarterly and 6-month provider reviews are required to be approved by the Medical Services Director before execution.
- A significant amount of SURS resources were allocated to work on developing the new Medicaid Management Information System.

Our recommendation to the department is:

We recommend the Department of Human Services sufficiently organize the SURS unit outside the control of other Medicaid operations so the SURS unit can objectively perform their function.

DHS's response to the recommendation is that they will consider reviewing the reporting structure to ensure that SURS functions are objectively performed.

The full single audit report is available on our website at:
http://www.nd.gov/auditor/reports/f100_14.pdf

If you have any questions on the single audit process or the findings contained in the single audit my contact information is:

Cindi Pedersen, Audit Manager
Phone: 328-4743
Email: cipeders@nd.gov

Federal Expenditures by State Agency

	Fiscal Year 2013	Fiscal Year 2014
Governor's Office	1,200,491.00	-
Secretary of State	806,230.00	1,426,779.00
Office of Management and Budget	2,195,158.00	2,174,061.00
ITD	2,918,596.00	2,400,001.00
State Auditor	497,694.00	582,822.00
State Treasurer	53,562,041.00	95,654,451.00
Attorney General	3,644,243.00	2,138,825.00
Tax Commissioner	16,840.00	10,364.00
Judiciary System	-	114,832.00
Department of Public Instruction	139,862,578.00	126,865,885.00
State Library	1,053,047.00	948,716.00
School for the Blind	65,965.00	90,439.00
Career and Technical Education	4,211,432.00	4,221,986.00
Health Department	53,768,124.00	53,661,672.00
Veterans' Home	3,332,017.00	2,524,079.00
Department of Human Services	692,174,407.00	729,797,267.00
Protection and Advocacy	1,185,581.00	1,327,526.00
Insurance Department	412,104.00	291,081.00
Industrial Commission	111,622.00	105,350.00
Department of Labor	429,534.00	231,090.00
Public Service Commission	4,028,822.00	3,892,574.00
Aeronautics Commission	506,698.00	171,547.00
Highway Patrol	1,936,065.00	1,907,197.00
Department of Corrections & Rehabilitation	2,317,944.00	2,518,759.00
Adjutant General	103,045,098.00	76,726,091.00
Department of Commerce	23,590,134.00	14,217,475.00
Department of Agriculture	2,050,391.00	2,186,500.00
Historical Society	920,097.00	907,151.00
Council on the Arts	720,561.00	661,450.00
Game and Fish	13,075,843.00	12,673,204.00
Parks and Recreation	1,568,207.00	1,025,796.00
Water Commission	5,425,892.00	1,520,820.00
Department of Transportation	349,025,057.00	302,111,873.00
Bismarck State College	6,919,182.00	10,018,411.00
Dickinson State University	2,295,383.00	2,042,797.00
Lake Region State College	1,881,736.00	2,353,346.00
Mayville State University	4,012,533.00	3,766,215.00
MISU	6,753,079.00	6,746,070.00
Minot State University	1,227,005.00	1,454,774.00
North Dakota State College of Science	4,152,919.00	4,022,951.00
North Dakota State University	60,149,768.00	56,440,717.00
North Dakota University System	610,144.00	506,171.00
University of North Dakota	67,051,601.00	64,040,139.00
Valley City State University	1,845,339.00	1,714,075.00
Willison State College	1,023,615.00	1,396,202.00
	<u>1,627,582,830.00</u>	<u>1,599,591,545.00</u>