



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Human Services

Federal Compliance Audit

Year Ended June 30, 2012

July 11, 2013

Report 13-15

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

July 11, 2013

Senator Roger Reinert, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Lucinda Jesson, Commissioner
Department of Human Services

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Human Services during fiscal year 2012. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Human Services.

We discussed the results of the audit with department staff at an exit conference on June 24, 2013. This audit was conducted by David Poliseno, CPA, CISA, CFE, (Audit Manager) and Laura Wilson, CPA, CISA, (Auditor-in-Charge), assisted by auditors Tyler Billig, CPA, Jordan Bjonfald, CPA, Cynthia Gaertner, CPA, Tracy Gebhard, CPA, Melanie Greufe, CPA, CFE, Joseph McMahon, CPA, Leah Miller, Kelsey Nistler, CPA, Kathy Rootham, Abdul Suleyman, CPA, and Heather Varez, CPA.

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Department of Human Services generally complied with and had internal controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2012. However, as noted in the OLA Report on Information Verification in Eligibility Determinations, the department did not comply with (and did not have adequate internal controls to comply with) federal eligibility requirements for the Medical Assistance Program.¹ In addition, the department had other weaknesses, as noted in findings 1 through 9 in the following *Findings and Recommendations* section (including four repeat findings from last year's audit that were not fully resolved²).

Key Findings

- Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs. ([Finding 1, page 5](#))
- Prior Finding Not Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements. ([Finding 2, page 6](#))
- Prior Finding Partially Resolved: The Department of Human Services did not adequately monitor the counties' efforts to detect fraudulent child care payments and ensure they properly recovered the payments. ([Finding 3, page 7](#))
- The Department of Human Services did not request about \$139 million from the federal government over several years for Medical Assistance Program costs incurred by the state to administer the program. ([Finding 4, page 8](#))
- The Department of Human Services did not consistently reduce recipients' cash assistance benefits when the recipient refused to cooperate with child support enforcement requirements. ([Finding 5, page 9](#))

¹ Office of the Legislative Auditor's Financial Audit Division Report 13-05, *Department of Human Services*, issued March 26, 2013.

² Office of the Legislative Auditor's Financial Audit Division Report 12-07, *Department of Human Services*, issued March 29, 2012.

Audit Scope

Our scope included programs determined to be major federal programs for the State of Minnesota for fiscal year 2012, including Medicaid Cluster, Children's Health Insurance Program, Child Support Enforcement, Child Care Cluster, Social Services Block Grant, Foster Care, Temporary Assistance for Needy Families, and Food and Nutrition Services Cluster.

Department of Human Services

Federal Program Overview

The Department of Human Services administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.³ Table 1 identifies these major federal programs at the Department of Human Services.

Table 1
Department of Human Services
Major Federal Programs
Fiscal Year 2012
(in millions)

<u>Program Name</u>	<u>Federal Expenditures</u>
Medicaid Cluster	\$4,571
Food and Nutrition Services Cluster	808
Temporary Assistance for Needy Families Cluster	272
Child Care Cluster	120
Child Support Enforcement	108
Foster Care – Title IV-E	40
Social Services Block Grant	34
Children’s Health Insurance Program	31

Note: Clusters have multiple programs that are administered as separate programs but treated as a single program for the purpose of meeting the audit requirements of the U.S. Office of Management and Budget’s Circular A-133. Appendix A, on page 15, lists the corresponding Catalog of Federal Domestic Assistance (CFDA) and federal award numbers.

Source: The state’s accounting system.

In March 2013, we completed a special review of the Department of Human Services verification of information used to determine recipients’ eligibility for the Medical Assistance, Temporary Assistance to Needy Families, and the Supplemental Nutrition Assistance programs.⁴ We conducted this special review to follow up on previous concerns we had about the process used by the department to verify reported social security numbers and incomes. The review found that the department did not adequately verify the social security numbers and incomes reported by participants of MinnesotaCare (a state-created, subsidized health insurance program funded from a state tax on health care providers, federal matching funds, and enrollee premiums), and that the department did not effectively monitor the resolution of income discrepancies.

³ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2012 exceeded \$30 million.

⁴ Office of the Legislative Auditor Financial Audit Division Special Review, Report 13-05, *Department of Human Services Information Verification in Eligibility Determinations*, issued March 26, 2013.

We included the results of this special review as part of our overall conclusions about the state's compliance with federal programs.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Human Services complied with federal program requirements in its administration of these federal programs for fiscal year 2012. This audit is part of our broader federal single audit designed to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.⁵ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

Conclusion

The Department of Human Services generally complied with and had internal controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2012. However, as noted in the OLA Report on Information Verification in Eligibility Determinations, the department did not comply with (and did not have adequate internal controls to comply with) federal eligibility requirements for the Medical Assistance Program.⁶ In addition, the department had other weaknesses, as noted in findings 1 through 9 in the following *Findings and Recommendations* section (including four repeat findings from last year's audit that were not fully resolved⁷).

⁵ The State of Minnesota's single audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated March 20, 2013, on the State of Minnesota's basic financial statements for the year ended June 30, 2012. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor's Financial Audit Division Report 13-06, *Report on Internal Control Over Statewide Financial Reporting*, issued May 17, 2013.) This report included control deficiencies related to the Department of Human Services.

⁶ Office of the Legislative Auditor's Financial Audit Division Report 13-05, *Department of Human Services*, issued March 26, 2013.

⁷ Office of the Legislative Auditor's Financial Audit Division Report 12-07, *Department of Human Services*, issued March 29, 2012.

Findings and Recommendations

Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs.

Finding 1

The department designed but did not fully implement quality control reviews over eligibility as part of its oversight to ensure it provided federal program benefits only to eligible recipients for its fiscal year 2012 Temporary Assistance for Needy Families programs (CFDA 93.558 and 93.714) and Child Care Cluster (CFDA 93.575 and 93.596).⁸ The department delegated to the counties the responsibility to meet with recipients applying for assistance and determine the appropriate benefits. To verify the accuracy of the county workers' benefit determinations and redeterminations, the department selected random statistical samples of recipient cases and verified that county workers had accurately determined eligibility; however, due to staff turnover at the department, it had not completed the fiscal year 2012 sample cases by January 2013. The department referred errors found during the quality control review to the counties and referred any suspected fraud to the department's Office of Inspector General.

The objective of our testing was to determine whether the department's quality control review was effective in identifying errors made by the county workers and to determine the extent of errors made by county workers. As explained in the following bullets, the department continued to have a higher risk of noncompliance with federal eligibility requirements because it had not implemented its control procedures for fiscal year 2012 eligibility verifications for two of its major federal programs:

- **Temporary Assistance for Needy Families:** As of December 2012, the department had selected for eligibility review 240 case files related to benefits provided in fiscal year 2012. The department began reviewing the cases, but it had not completed its reviews of the cases or reached conclusions about whether eligibility decisions made by county workers complied with the program's federal requirements.⁹ We tested 25 of the 240 case files the department included in its testing sample; however, the department had only reviewed 6 of those 25 cases at the time we requested the files. We found no errors in the eligibility determination for the 25 files we tested; however, because the department was significantly behind in their reviews for this program, its internal controls were not effective to ensure consistent compliance with the eligibility requirements.

⁸ See Appendix A, on page 13, for the federal award numbers for these programs.

⁹ See the Office of Management and Budget A-133 Compliance Supplement, Temporary Assistance to Needy Families, part 4, letter E, for a list of the federal eligibility requirements.

- **Child Care Cluster:** For fiscal year 2012, the department selected 276 child care cases for review. As of January 2013, the department had reviewed many but not all of the case files. We selected 40 of the 276 case files the department selected for review; the department had reviewed 33 of those 40 files. For 1 of 40 files we tested, the county case worker and the department's first and second level reviewers miscalculated the participant's income, resulting in an undetected overpayment of \$26 each month.

In addition, the department did not adequately monitor certain eligibility determination overrides done by county workers in the eligibility systems for the Medical Assistance (CFDA 93.778), Temporary Assistance for Needy Families, and Child Care Assistance programs. When county workers encountered unusual or extenuating circumstances, they could override the automated system's benefit determinations. The automated systems provided override reports for the counties to review, but the Department of Human Services did not ensure counties reviewed the reports as a way to verify that the overrides were appropriate. Since March 2012, the department designed a database to enable them to generate reports to analyze and monitor the counties' override activity for these programs to identify unusual trends, errors, or potential fraud. However, as of January 2013, the department had not finalized the database reports or made the database available to the department's program staff.

Recommendations

- *The department should ensure that its quality review process detects and resolves eligibility discrepancies.*
- *The department should continue to implement controls to monitor the specific eligibility overrides related to the Medical Assistance, Temporary Assistance for Needy Families, and Child Care Assistance programs.*

Finding 2

Prior Finding Not Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

The department has made little progress since 2009, when we first reported this deficiency, to develop and document a comprehensive risk assessment regarding internal controls over compliance with federal single audit requirements for its major federal programs.¹⁰ In response to the prior finding we repeated in our March 2012 audit report, the department estimated that it would resolve the

¹⁰ This finding affects all major federal programs identified in Table 1 except the Social Services Block Grant. See Appendix A, on page 13, for the federal award numbers for these programs. It also applies to federal programs that were major programs in fiscal year 2009, but not in fiscal years 2010 through 2012, including Adoption Assistance (CFDA 93.659) and Substance Abuse (CFDA 93.959).

finding by March 31, 2013. Although in fiscal year 2012, it did complete a comprehensive risk assessment for the federal Social Services Block Grant Program, it had not done so for any of its other major federal programs listed in Table 1, including Medical Assistance, for which it received over \$4.6 billion in fiscal year 2012.

The federal Office of Management and Budget, Circular A-133, outlines the state's responsibilities for managing federal assistance programs and addresses general compliance requirements and program specific requirements. The circular requires the state to maintain internal controls over federal programs and to follow up and take corrective action on audit findings.¹¹ In addition, state policy requires agencies to document its internal control procedures over financial management activities (including compliance with federal program requirements), including the department's analysis of risks and periodic evaluation of control procedures to ensure they are adequately designed, properly implemented, and functioning effectively.¹²

The findings in this report identify deficiencies in the department's internal control procedures and significant ongoing noncompliance with federal requirements that the department's internal control structure did not prevent or detect. If the department had a comprehensive internal control structure, it may have identified these deficiencies, assessed the degree of risk for these deficiencies, designed control procedures to address significant risk, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The department should complete its review and documentation of its risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to major federal programs.*

Prior Finding Partially Resolved: The Department of Human Services did not adequately monitor the counties' efforts to detect fraudulent child care payments and ensure they properly recovered the payments.

Finding 3

The department did not have adequate controls in place to monitor whether the counties identified and collected fraudulent payments from the Child Care Assistance Program (CFDA 93.575 and 93.596).¹³ The department delegated the

¹¹ U.S. Office of Management and Budget Circular A-133, subpart C - Auditees, section .300(b).

¹² Department of Management and Budget Policy 0102-01, *Internal Controls*.

¹³ See Appendix A, on page 13, for the federal award numbers for these programs.

fraud detection and payment collection responsibilities to the counties but did not adequately monitor the counties to ensure they followed the department's procedures for detecting fraud and recovering wrongful payments.¹⁴ Federal regulations require the state to recover fraudulent child care payments from the party responsible for committing the fraud.¹⁵

In response to our prior finding, the department estimated that it would resolve the finding by September 30, 2012. Since our last audit, the department designed monitoring controls over the counties' fraud detection and payment collections; however, as of February 2013, the department had not implemented those controls. Without adequate monitoring controls, the department could not ensure the counties were complying with the federal regulations.

Recommendation

- *The department should complete its implementation of controls to ensure counties are making adequate efforts to identify and collect fraudulent child care payments.*

Finding 4

The Department of Human Services did not request about \$139 million from the federal government over several years for Medical Assistance Program costs incurred by the state to administer the program.

Over several years, the department did not request from the federal government sufficient money to reimburse the state for the federal share of Medical Assistance costs; by June 30, 2011, the deficiency accumulated to \$139 million. Although the department worked with the federal government and was reimbursed for the costs in November 2012, the error resulted in a prior period adjustment on the state's financial statements.

The department identified the unreimbursed costs when the state started using a new accounting system. Although the department compared program expenditures to the federal reimbursement amounts at the end of each grant period, information in the old accounting system was not sufficient to allow analysis at the detailed grant award level. When staff started doing the analysis for the fiscal year 2012 grant awards using information from the new accounting system, they suspected that they may have underclaimed federal awards in past years, prompting a thorough review of grant awards, expenditures, reimbursements, and the identification of the \$139 million unreimbursed costs.

¹⁴ Child Care Assistance Program Policy Manual, Chapters 4 and 14.

¹⁵ 45 Code of Federal Regulations, section 98.60(i).

Recommendation

- *The department should ensure that it requests reimbursement from the federal government for the full federal share of program costs.*

The Department of Human Services did not consistently reduce recipients' cash assistance benefits when the recipient refused to cooperate with child support enforcement requirements.**Finding 5**

The department did not reduce Temporary Assistance for Needy Families (CDFA 93.558 and 93.714) cash assistance benefits for 4 of 25 recipients tested who refused to cooperate with child support enforcement requirements.¹⁶ Federal regulations require state agencies to reduce recipients' cash assistant benefits by no less than 25 percent when the recipient refuses to cooperate with establishing paternity, or establishing, modifying or enforcing a support order with respect to a child of the recipient.¹⁷ The department used the child support enforcement system to send notification messages to county workers through the department's eligibility system when custodial parents initially refused to cooperate with child support enforcement requirements; however, because of an error in computer programming, those notification messages were not sent when the recipient's case file in the child support enforcement system predated the recipient's case file in the eligibility system. Federal regulations allow the federal Department of Health and Human Services to penalize states for failure to substantially comply with these sanction requirements.¹⁸

Recommendation

- *The department should ensure it sanctions the cash assistance benefits for recipients that do not cooperate with the child support enforcement requirements.*

The Department of Human Services submitted an erroneous financial report to the federal government for its Child Care Cluster Program.**Finding 6**

The department overstated the total expenditures in the June 30, 2012, *Child Care and Development Fund Financial Report*¹⁹ by \$2 million (CFDA 93.575 and 93.596²⁰). A formula error resulted in the department double-counting an amount it recorded in a line item, resulting in the fourth quarter's report being overstated

¹⁶ See Appendix A, on page 13, for the federal award numbers for these programs.

¹⁷ 45 Code of Federal Regulations, section 264.30.

¹⁸ 45 Code of Federal Regulations, section 264.31.

¹⁹ ACF – 696 report.

²⁰ See Appendix A, on page 13, for the federal award numbers for these programs.

by about \$2 million. Because of the formula error in the electronic worksheet the department used to prepare the report, the department erroneously reported expenditures at \$53.5 million instead of \$51.5 million. The department did not have an adequate review of the report to ensure its accuracy.

Recommendation

- *The department should ensure that it submits accurate financial reports to the federal government.*

Finding 7

The Department of Human Services did not consistently review a key payroll report.

The department did not consistently review the self service time entry audit report from the state's payroll system for its central office employees. The department used federal funds for payroll costs in the Temporary Assistance for Needy Families (CFDA 93.558), Supplemental Nutrition Assistance Administration (CFDA 10.561), Child Care Cluster (CFDA 93.575 and 93.596), Foster Care (CFDA 93.658), and Social Services Block Grant (CFDA 93.667) programs.²¹ The report identifies two types of time reporting exceptions – employees who did not complete their own timesheets and timesheets approved by a backup supervisor rather than the primary supervisor. The Department of Management and Budget's policy states that, "The best control over the integrity of employees' payroll information is achieved when employees prepare their own timesheets and supervisors, who have direct knowledge of employees' work, review and approve timesheets."²²

To mitigate the risk that the payroll hours included on the self service time entry audit report may not reflect hours actually worked or authorized for payment, the policy requires state agencies to review, at a minimum, a representative sample of transactions appearing on the report each pay period and perform a comprehensive review of the report each quarter.

During July 2011 through February 2012, the department did not review the payroll reports for its central office employees and, between March and June 2012, the department reviewed two of the four reports we asked about. By not reviewing this key payroll report, the department cannot ensure it correctly compensated its employees.

Recommendation

- *The Department of Human Services should review the self service time entry audit report each pay period to ensure that employees are completing their own timesheets, and the primary supervisors are approving the time.*

²¹ See Appendix A, on page 13, for the federal award numbers for these programs.

²² Minnesota Management and Budget Policy PAY0017.

Prior Finding Partially Resolved: The Department of Human Services did not obtain the Data Universal Numbering System (DUNS) numbers from its subrecipients and did not communicate all federal award information to some of its subrecipients.

Finding 8

The department did not obtain the Data Universal Numbering System (DUNS) numbers from its subrecipients for the following programs: Medical Assistance (CFDA 93.777 and 93.778), Children's Health Insurance Program (CFDA 93.767), Child Care Cluster (CFDA 93.575 and 93.596), Child Support Enforcement (CFDA 93.563), Social Services Block Grant (CFDA 93.667), Foster Care (CFDA 93.568), Temporary Assistance for Needy Families (CFDA 93.558 and 93.714), and Supplemental Nutrition Assistance Program (CFDA 10.551 and 10.561).²³ Federal regulations require state agencies to obtain the valid DUNS number from its subrecipients before issuing subawards.²⁴

In addition, the department did not identify the federal award information to some Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs subrecipients at the time of the grant award. Federal regulations require the department to provide the CFDA title and number along with the federal award name and number to all subrecipients as part of its subaward application process.²⁵ Since the last audit, the department implemented procedures to ensure it communicated the award name and numbers to the counties; however, it did not always inform the other subrecipients of the federal award information for these two federal programs.

Recommendations

- *The department should obtain the DUNS numbers from subrecipients when making subawards.*
- *The department should identify to the subrecipient, at the time of the award, the federal award name and number.*

The Department of Human Services did not consistently reconcile the nonfederal funds paid from its child support enforcement system to the state's accounting system.

Finding 9

The department did not consistently reconcile the nonfederal fund financial activity in its child support enforcement system to the state's accounting system to

²³ See Appendix A for the federal award numbers for these programs.

²⁴ 2 Code of Federal Regulations, section 25.200, and Appendix A to 2 Code of Federal Regulations, section 25.

²⁵ 2 Code of Federal Regulations, section 176.210(c), and Office of Management and Budget A-133 Circular, section .400(d).

ensure accurate financial information, as required by state policy.²⁶ During fiscal year 2012, the department reconciled the federal funds each month but only reconciled the general and agency funds for 3 of the 12 months. Without a complete reconciliation of all the financial activity, the department cannot ensure the integrity of its accounting records. The department processed about \$534 million of child support enforcement-related payments in fiscal year 2012.

Recommendation

- *The department should reconcile all financial activity in its child support enforcement system to the state's accounting system.*

²⁶ Department of Management and Budget Policy Number 0102-01, *Internal Controls*.

Appendix A
Major Federal Programs
Department of Human Services
Fiscal Year 2012

CFDA¹	Program Name	Federal Award Number
	<u>Food and Nutrition Services Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	2011IS601842, 2011IS604542, 2011ID281142, 2011ID282142, 2012IS601842, 2012IS604542, 2012ID281142, 2012ID282142, 2012IS802642
10.561	Supplemental Nutrition Assistance Administration	2011IS251442, 2011IS803642, 2011IS251942, 2011IS252042, 2011IQ390342, 2011IE251842, 2011E251842, 2012IS251442, 2012IS803642, 2012IS251942, 2012IS252042, 2012IS750342, 2012IE251842, 2012IS820442, 2012IN254542
	<u>Temporary Assistance for Needy Families Cluster</u>	
93.558	Temporary Assistance for Needy Families	1102MNTANF, 1202MNTANF
93.714	Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs ARRA	1001MNTAN2
93.563	Child Support Enforcement	1004MN4004, 1104MN4004, 1204MN4005
	<u>Child Care Cluster</u>	
93.575	Child Care and Development Block Grant	1101MNCCDF
93.596	Child Care Mandatory and Matching Fund	1101MNCCDF, 1201MNCCDF
93.658	Foster Care – Title IV-E	1001MN1401, 1101MN1401, 1201MN1401
93.667	Social Services Block Grant	1101MNSOSR, 1201MNSOSR
93.767	Children's Health Insurance Program	1005MN5021, 1105MN5021
	<u>Medicaid Cluster</u>	
93.775	State Medical Fraud Control Units	01-1101-MN-5050, 011301MN5050
93.777	State Health Care Providers Survey	1105MN5001, 1205MN5001
93.778	Medical Assistance Program	1105MN5028 (1105MN5MAP), 1105MN5048 (1105MN5ADM) 1205MN5MAP, 1205MN5ADM

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Source: The state accounting system and staff at the Department of Human Services.



Minnesota Department of **Human Services**

July 1, 2013

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

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the findings in the Department of Human Services Federal Compliance Audit for fiscal year ending June 30, 2012. We appreciate and value the thorough examination of our major federal programs, and enjoyed working with your dedicated and professional staff during this audit.

The department is working hard to resolve the issues noted, and is committed to creating and maintaining a comprehensive control environment. Below are the department's response to the findings and recommendations in the 2012 Federal Compliance Audit.

Audit Finding #1

Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs.

Audit Recommendation #1

Recommendations

- *The department should ensure that its quality review process detects and resolves eligibility discrepancies.*
- *The department should continue to implement controls to monitor the specific eligibility overrides related to the Medical Assistance, Temporary Assistance for Needy Families, and Child Care Assistance programs.*

**Department of Human Services’
Response to the Legislative Audit Report titled
*The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2012***

Agency Response to Audit Recommendation #1-1

The department agrees with this finding and recommendation. We will continue to refine and improve our process of conducting eligibility reviews for all federal programs, and will resolve this issue for our Temporary Assistance for Needy Families and Child Care Assistance programs.

Person Responsible: Gary L. Johnson, Director of Internal Audits
Estimated Completion Date: December 31, 2014

Agency Response to Audit Recommendation #1-2

The department agrees with this recommendation. A bulletin to counties identifying available reports for monitoring overrides and providing instructions for county supervisors will be published in the summer of 2013.

Persons Responsible: Mary Orr, Director of Community Partnerships and Child Care Services
Mark Toogood, Director of Transition to Economic Stability
Karen Gibson, Director of Health Care and Eligibility and Access
Estimated Completion Date: September 30, 2013

Audit Finding #2

Prior Finding Not Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

Audit Recommendation #2

Recommendation

- *The department should complete its review and documentation of its risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to major federal programs.*

Agency Response to Audit Recommendation #2

The department agrees that we have not resolved the prior finding with regard to conducting risk assessments regarding internal controls over compliance with federal single audit requirements for our major federal programs. Since 2009, when this finding was first reported, the department has hired an enterprise risk management coordinator, chartered an Enterprise Risk Management Planning Team, and invested in considerable training (in conjunction with the Minnesota Management and Budget (MMB) Internal Controls and Accountability Unit) within the department on Risk Assessment Methodology and Internal Control Awareness.

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2012

While there is substantial work ahead, the department has made significant progress in terms of building capacity and momentum for meeting this requirement. As noted, the department did complete a comprehensive risk assessment of the federal Social Services Block Grant Program in 2012, and the assessment of SNAP is currently underway. The department has developed a multi-year risk assessment plan to be submitted to MMB as part of our annual Control Environment Self-Assessment. By December 2014, the department anticipates completing all major federal program risk assessments except for Medical Assistance (MA). MA risk assessments are being planned using the MITA business architecture to map the high-level process and identify core functions/processes used to administer the program and deliver services. Some MA risk assessments may be done in conjunction with MNSure risk assessments.

Person Responsible: Greg Gray, Chief Compliance Officer
Estimated Completion Date: December 31, 2015

Audit Finding #3

Prior Finding Partially Resolved: The Department of Human Services did not adequately monitor the counties' efforts to detect fraudulent child care payments and ensure they properly recovered the payments.

Audit Recommendation #3

Recommendation

- *The department should complete its implementation of controls to ensure counties are making adequate efforts to identify and collect fraudulent child care payments.*

Agency Response to Audit Recommendation #3

The department agrees with the finding and recommendation. The department will complete implementation of controls to ensure counties are making adequate efforts to identify and collect fraudulent child care payments including:

- Reinforcing, through instructions to counties, the process for making referrals to the Fraud Prevention Investigation (FPI) program or county criminal investigation staff;
- Providing guidance to counties on implementation of actions related to child care payments authorized under Minnesota Statutes, section 119B.13, subdivision 6(d);
- Monitoring reports at the state level to identify potential fraudulent payments and the recovery of overpayments;
- Providing instructions to counties for monitoring reports to ensure overpayments are recovered; and
- Implementing 2013 legislative changes related to child care provider fraud.

Persons responsible: Mary Orr, Director of Community Partnerships and Child Care Services
Vicki Kunerth, Deputy Inspector General

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**Department of Human Services’
Response to the Legislative Audit Report titled
*The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2012***

Estimated completion date: December 31, 2013

Audit Finding #4

The Department of Human Services did not request about \$139 million from the federal government over several years for Medical Assistance Program costs incurred by the state to administer the program.

Audit Recommendation #4

Recommendation

- *The department should ensure that it requests reimbursement from the federal government for the full federal share of program costs.*

Agency Response to Audit Recommendation #4

The department agrees with this finding and recommendation, and has implemented procedures to ensure it requests reimbursement for the full federal share of program costs.

Persons Responsible: Martin Cammack, Financial Operations Director

Estimated Completion Date: Completed

Audit Finding #5

The Department of Human Services did not consistently reduce recipients’ cash assistance benefits when the recipient refused to cooperate with child support enforcement requirements.

Audit Recommendation #5

Recommendation

- *The department should ensure it sanctions the cash assistance benefits for recipients that do not cooperate with the child support enforcement requirements.*

Agency Response to Audit Recommendation #5

The department agrees with the finding and recommendation. The department will complete implementation of controls to ensure counties are making adequate efforts to appropriately modify cash assistance payments to meet child support enforcement requirements. These will include DHS staff monitoring of monthly reports to assure appropriate case actions are taken, working with MN.IT for programming PRISM to produce an alert or edit that would remind or require the child support worker to remove sanctions in appropriate MFIP re-application situations, and notifying MFIP and Child Support staff to remind them of sanction policy when a client reapplies for MFIP.

**Department of Human Services’
Response to the Legislative Audit Report titled
*The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2012***

Persons responsible: Mark Toogood, Director of Transition to Economic Stability
Jeff Jorgenson Director of Child Support Enforcement Division
Estimated completion date: December 31, 2013

Audit Finding #6

The Department of Human Services submitted an erroneous financial report to the federal government for its Child Care Cluster Program.

Audit Recommendation #6

Recommendation

- *The department should ensure that it submits accurate financial reports to the federal government.*

Agency Response to Audit Recommendation #6

The department agrees with this finding and recommendation and will continue to work at improving processes to complete and submit federal reports accurately and timely.

Persons Responsible: Martin Cammack, Financial Operations Director
Estimated Completion Date: December 31, 2013

Audit Finding #7

The Department of Human Services did not consistently review a key payroll report.

Audit Recommendation #7

Recommendation

- *The Department of Human Services should review the self-service time entry audit report each pay period to ensure that employees are completing their own timesheets, and the primary supervisors are approving the time.*

Agency Response to Audit Recommendation #7

The Department agrees with this finding and recommendation. To address this finding we have developed bi-weekly checklists for use by payroll staff to ensure all required reports are reviewed. We have also documented the process to be followed when reviewing the self-service time entry audit report.

Persons Responsible: Martin Cammack, Financial Operations Director
Estimated Completion Date: Completed

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Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2012

Audit Finding #8

Prior Finding Partially Resolved: The Department of Human Services did not obtain the Data Universal Numbering System (DUNS) numbers from its subrecipients and did not communicate all federal award information to some of its sub recipients.

Audit Recommendations #8

- *The department should obtain the DUNS numbers from subrecipients when making subawards.*
- *The department should identify to the subrecipient, at the time of the award, the federal award name and number.*

Agency Response to Audit Recommendation #8

The department agrees with the finding and recommendations to obtain the DUNS numbers from subrecipients when making subawards and will continue to work at implementing this processes. The department agrees with the recommendation to provide the federal award name and number to subrecipients at the time of the grant award. This is currently done for counties and we will continue to work on expansion to include grantees other than counties.

Persons Responsible: Martin Cammack, Financial Operations Director
Estimated Completion Date: December 31, 2013

Audit Finding #9

The Department of Human Services did not consistently reconcile the nonfederal funds paid from its child support enforcement system to the state's accounting system.

Audit Recommendation #9

- *The department should reconcile all financial activity in its child support enforcement system to the state's accounting system.*

Agency Response to Audit Recommendation #9

The department agrees with this finding and recommendation and will develop a reconciliation process between the PRISM child support enforcement system and SWIFT.

Persons Responsible: Martin Cammack, Financial Operations Director
Estimated Completion Date: December 31, 2013

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2012

Thank you again for the professional and dedicated efforts of your staff during this audit. The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

A handwritten signature in cursive script that reads "Lucinda E. Jesson". The signature is written in black ink and is positioned above the printed name and title.

Lucinda E. Jesson
Commissioner