



FINANCIAL AUDIT DIVISION REPORT

**Department of
Human Services**

Federal Compliance Audit

Year Ended June 30, 2013

March 26, 2014

Report 14-11

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 26, 2014

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This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Human Services during fiscal year 2013. 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 on March 17, 2014. This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Laura Wilson, CPA, CISA, (Auditor-in-Charge), assisted by Tyler Billig, CPA, Scott Dunning, Daphne Fabiano, Cassie Harlin, Lori Leysen, Nicholas Ludwig, Carmen Marg-Patton, Joseph McMahon, CPA, Kathy Rootham, Valentina Stone, and Melissa Strunc.

We received the full cooperation of the Department of Human Services staff 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 legal requirements applicable to its major federal programs for fiscal year 2013. However, as noted in Findings 1 and 5, the department did not comply with and did not have adequate internal controls to comply with federal eligibility requirements for the Medical Assistance and Temporary Assistance for Needy Families programs. In addition, the department had other internal control weaknesses and instances of noncompliance, including some findings repeated from our prior reports,¹ as noted in the findings in this report.

Key Findings

- The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements. This is a repeat finding. ([Finding 1, page 7](#))
- The Department of Human Services allowed employees to have incompatible access to the state's accounting system without implementing adequate mitigating controls. ([Finding 2, page 10](#))
- The Department of Human Services did not identify and reduce the benefits of some recipients of federal cash assistance who did not cooperate with child support enforcement requirements. This is a repeat finding. ([Finding 3, page 11](#))
- The Department of Human Services did not adequately monitor some aspects of the Child Care Assistance Program. ([Finding 4, page 13](#))

Audit Scope

Our scope included programs we determined to be major federal programs for the State of Minnesota for fiscal year 2013, including Medicaid Cluster, Child Support Enforcement, Child Care Cluster, Social Services Block Grant, Foster Care, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance Program.²

¹ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit*, issued July 11, 2013, and Office of the Legislative Auditor, Financial Audit Division Report 13-05, *Department of Human Services Information Verification in Eligibility Determinations, Special Review*, issued March 26, 2013.

² A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

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 2013
(in thousands)

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Expenditures</u>
	<u>Food and Nutrition Services Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	\$ 757,302
10.561	State Administrative Matching Grants	57,361
	<u>Temporary Assistance for Needy Families Cluster</u>	
93.558	Temporary Assistance for Needy Families	220,127
93.714	ARRA – Emergency Contingency Fund ²	1,572
93.563	<u>Child Support Enforcement</u>	114,782
	<u>Child Care Cluster</u>	
93.575	Child Care and Development Block Grant	80,664
93.596	Child Care Mandatory and Matching Fund	53,763
93.658	<u>Foster Care – Title IV-E</u>	40,181
93.667	<u>Social Services Block Grant</u>	33,717
	<u>Medicaid Cluster</u>	
93.775	State Medical Fraud Control Units	1,088
93.777	State Survey and Certification of Health Care Providers and Suppliers	14,335
93.778	Medical Assistance Program	5,044,068

¹ The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. Some federal programs are clustered if they have similar compliance requirements. Although the programs within a cluster are administered as separate programs, they are 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*.

² ARRA refers to the American Recovery and Reinvestment Act.

Source: Fiscal Year 2013 Schedule of Expenditures of Federal Awards.

³ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the U.S. Office of Management and Budget's *Circular A-133*, as a program or cluster of programs whose expenditures for fiscal year 2013 exceeded \$30 million.

The U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement* describes the programs as follows:

- Supplemental Nutrition Assistance Program assists low income households in buying food needed for good health.
- Temporary Assistance for Needy Families Cluster provides time-limited assistance to low income families with children so the children can be cared for in their own homes or with relatives; promotes job preparation, work and marriage for the parents; and helps reduce out-of-wedlock pregnancies.
- Child Support Enforcement enforces obligations owed by noncustodial parents, locates absent parents, establishes paternity, and obtains child and spousal support. Minnesota counties administer this program and the department reimburses the counties for their costs incurred.
- Child Care Cluster provides funds to child care providers on behalf of low income individuals and families to increase the availability, affordability, and quality of child care services.
- Foster Care provides safe, appropriate, 24-hour, substitute care for children needing temporary placement and care outside their homes. Minnesota counties administer this program and the department reimburses the counties for costs they incur.
- Social Services Block Grant provides services for individuals, families, and entire population groups to (1) prevent, reduce, or eliminate dependency; (2) achieve or maintain self-sufficiency; (3) prevent neglect, abuse, or exploitation of children and adults; (4) prevent or reduce inappropriate institutional care; and (5) secure admission or referral for institutional care when other forms of care are not appropriate. Minnesota counties administer this program and the department reimburses the counties.
- Medicaid Cluster provides payments to medical providers on behalf of low-income persons.

In October 2013, the department's Office of Internal Audit concluded an investigation into allegations that department officials inappropriately exempted Amplatz Children's Hospital, a part of the University of Minnesota Medical Center, from a statutory Medical Assistance rate reduction.⁴ *Minnesota Statute 256.969, subd. 3c (a)*, excluded "...children's hospitals whose inpatients are

⁴ Department of Human Services' Office of Internal Audit report 14-004-N, *Review of Alleged Improprieties in the Health Care Administration*, issued October 1, 2013.

predominantly under 18 years of age” from the statutory 10 percent reduction in the total payment made to hospitals for fee-for-service admissions from September 2011 through June 2015 for inpatient services. The investigation concluded that the department needed to obtain a legal opinion on whether Amplatz qualified as a children’s hospital under the statute. It is our understanding that, when the department’s Office of Internal Audit released the results of its investigation to management, it also informed the U.S. Department of Health and Human Services’ Centers for Medicare and Medicaid Services of this finding.

In response to the investigation’s finding, the department’s general counsel conducted a legal analysis to determine if the department’s action to exempt Amplatz Children’s Hospital from the reduction in inpatient payment rates was consistent with state law. The analysis concluded that it was “factually unlikely” that the Amplatz Children’s Hospital was exempt from the rate reduction because (1) Amplatz Children’s Hospital is not itself a licensed hospital (it is part of the University of Minnesota Medical Center, which is a licensed hospital), and (2) the University of Minnesota Medical Center did not primarily serve children 18 years of age or under. In November 2013, the department notified the president of the University of Minnesota Medical Center that it was ending the exemption and reviewing past payments to determine the amount of overpayment. As of December 31, 2013, the department had recovered \$1.6 million in Medical Assistance overpayments; the federal portion of the recovery was about \$800,000. The department believed it may need to recover additional overpayments.

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 2013. 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

⁵ The State of Minnesota’s single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 18, 2013, on the State of Minnesota’s basic financial statements for the year ended June 30, 2013. 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, Financial Audit Division Report 14-04, [Report on Internal Control Over Financial Reporting](#), issued February 14, 2014.)

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 legal requirements applicable to its major federal programs for fiscal year 2013. However, as noted in Findings 1 and 5, the department did not comply with and did not have adequate internal controls to comply with federal eligibility requirements for the Medical Assistance and Temporary Assistance for Needy Families programs. In addition, the department had other internal control weaknesses and instances of noncompliance, including some findings repeated from our prior reports,⁶ as noted in the findings in this report.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

⁶ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit*, issued July 11, 2013, and Office of the Legislative Auditor, Financial Audit Division Report 13-05, *Department of Human Services Information Verification in Eligibility Determinations, Special Review*, issued March 26, 2013.

Findings and Recommendations

The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements. This is a repeat finding.⁷

Finding 1

The department had not developed and documented comprehensive risk assessments regarding internal controls over federal single audit compliance requirements for the Medical Assistance (CFDA 93.777 and 93.778), Child Support Enforcement (CFDA 93.563), Child Care Assistance (CFDA 93.575 and 93.596), and Foster Care (CFDA 93.658) programs and had not completed its assessment of the Supplemental Nutrition Assistance (CFDA 10.551 and 10.561) and Temporary Assistance for Needy Families (CFDA 93.558 and 93.714) programs.⁸ Since we first reported this finding in 2009, the department had not made significant progress. As of February 2014, it completed a risk assessment for only one of its major federal programs—the Social Services Block Grant. In fiscal year 2013, the department completed, but did not finalize, a draft risk assessment for the Supplemental Nutrition Assistance Program. It also started an assessment for the Temporary Assistance for Needy Families Program.

Title 2, Code of Federal Regulations *Grants and Agreements*, section 200.303 (a), requires the department to do the following:

Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity [the Department of Human Services] is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government,” issued by the Comptroller General of the United States and the “Internal Control Integrated Framework,” issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

⁷ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit* (Findings 1 and 2), issued July 11, 2013, and Office of the Legislative Auditor, Financial Audit Division Report 13-05, *Department of Human Services Information Verification in Eligibility Determinations, Special Review* (Finding 1), issued March 26, 2013.

⁸ See Appendix A, p. 22, for the federal award numbers for these programs. This finding also applies to federal programs that were major federal programs in prior fiscal years but not in fiscal year 2013, including Adoption Assistance (CFDA 93.659), Substance Abuse (93.959), and Children’s Health Insurance (CFDA 93.767) programs.

The *Internal Control-Integrated Framework* describes risk assessment (one of its five components of internal control) as, “...the entity’s identification and analysis of risks relevant to achievement of its objectives, forming a basis for determining how the risk should be managed.”

In addition to the federal requirements, the state’s internal controls policy states, “An effective system of internal controls will increase the state’s operational effectiveness and efficiency, safeguard public funds, ensure compliance with state and federal laws, rules, and regulations, and minimize instances of fraud, waste, and abuse.”⁹ The policy requires the department to use the *Internal Control-Integrated Framework* as its standard model for organizing, documenting, and discussing internal controls.

Minnesota’s implementation of the federal Patient Protection and Affordable Care Act fundamentally changed the department’s enrollment and eligibility verification processes for Medical Assistance, including MinnesotaCare.¹⁰ As part of its implementation of the federal law, Minnesota chose to create its own health care insurance exchange (MNsure) to enroll and determine eligibility for new program participants. In designing MNsure, the state’s goal was to have an exchange that would allow applicants to enter their own family and income information and have it verified through file matches with federal and state databases, replacing the existing process where county workers collected and verified much of this information and entered it into the state’s eligibility system, where further verification occurred. MNsure became operational on October 1, 2013, but the state has experienced a range of difficulties in fully meeting that goal.

Once it is fully functional, having a state health insurance exchange may help resolve some risks that existed before its implementation. But it will likely create new risks for which internal controls will be needed to ensure compliance with federal program requirements. One of the elements of an effective internal control system is an ongoing assessment of risks and determining how to adapt internal control procedures to address a changing environment. Because the department had not completed a risk assessment for the Medical Assistance program, including the MinnesotaCare program, it was ill prepared to determine how changes to its enrollment and eligibility verification processes either decreased or increased its risk of noncompliance with federal program requirements, or to identify the ways it needed to adjust its internal controls to address those risks. The department has estimated that it will complete an assessment of the risks of federal noncompliance related to the Medical Assistance program by June 2015.

⁹ The Department of Management and Budget’s Statewide Operating Policy 0102-01, *Internal Controls*.

¹⁰ The MinnesotaCare program is a state-created, subsidized health insurance program funded from a state tax on health care providers, federal Medicaid matching funds, and enrollee premiums.

In past audits, we have reported some findings related to weaknesses in internal controls and instances of noncompliance related to the verification of applicant information and the determination of eligibility for the department's major federal programs. Our testing for fiscal year 2013 showed that the department had not resolved these findings. Because the implementation of the Patient Protection and Affordable Care Act may have affected the risk of noncompliance and the types of internal control procedures that would be effective to address those risks, we are including the following weaknesses in this risk assessment finding so the department can consider the findings' continued relevance in the MNsure environment:

- In fiscal year 2013, the department did not verify social security numbers or income reported by participants of the MinnesotaCare program. The Social Security Act, section 1137 (a), says, "...a State must have in effect an income and eligibility verification system." The department did not include MinnesotaCare recipients in its income and eligibility verifications that validated reported social security numbers and income to other government data, such as from the Internal Revenue Service, Social Security Administration, and the Department of Employment and Economic Development. In fiscal year 2013, the federal government paid \$254 million and the state paid \$269 million for medical benefits on behalf of approximately 129,000 recipients in the MinnesotaCare program.

In response to our findings in our 2013 special review of the department's income verification and eligibility determinations, the department stated that it was working to determine whether file matches required as part of the Patient Protection and Affordable Care Act would provide all needed verification through the health insurance exchange.¹¹ However, in September 2013, department officials informed us that the state's health insurance exchange (MNsure) would not have the ability to verify income for MinnesotaCare applicants when it became operational on October 1, 2013, but that changes to the system in November would likely fix the problem. In December 2013, the department informed us that the changes had not been made.

- The department did not adequately monitor certain eligibility determination overrides made by county eligibility workers in the eligibility systems for the Medical Assistance, Temporary Assistance for Needy Families, and Child Care Cluster programs.¹² When county workers encountered unusual or extenuating circumstances, they could

¹¹ Office of the Legislative, Auditor Financial Audit Division Report 13-05, *Department of Human Services Information Verification in Eligibility Determinations, Special Review*, issued March 26, 2013.

¹² MAXIS was the department's eligibility system for the Temporary Assistance for Needy Families and Medical Assistance programs. Minnesota Electronic Child Care (MEC²) was the eligibility system for the Child Care Assistance Program.

override the eligibility systems' benefit determinations. The eligibility systems provided override reports for the counties to review, but the department did not ensure counties reviewed the reports as a way to verify that the overrides were appropriate.

The other findings in this report also identify deficiencies in the department's internal control procedures and 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 risks, and monitored whether controls were working as designed and effective in reducing the risks to an acceptable 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.*

Finding 2

The Department of Human Services allowed employees to have incompatible access to the state's accounting system without implementing adequate mitigating controls.

The department had not fully developed and implemented mitigating controls for the 60 employees with incompatible access to the state's accounting system.¹³ Department management stated that employees needed the incompatible security access for their job duties. The Department of Management and Budget Policy 1101-07, *Security and Access* says, in part:

Each agency must:

- Limit individual employee access to only those systems, programs, applications and data necessary for the individual to perform their job functions and responsibilities.
- Segregate incompatible job duties and responsibilities. In cases where incompatible functions cannot be segregated, the agency must implement and maintain compensating controls.

¹³ See Appendix A, p. 22, for the affected federal programs and award numbers.

In addition, the federal government requires effective internal controls in the state's administration of federal grant programs. U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*, Part 6, provides guidance to help non-Federal entities comply with internal control requirements, including an expectation of adequate separation of duties and appropriate computer and program access controls.

In March 2013, Department of Human Services' management certified to the Department of Management and Budget that it would eliminate or mitigate the incompatible security roles by June 30, 2013. Since March 2013, the department eliminated some users' incompatible access, assessed the risks of the remaining incompatible access, and developed some mitigating controls. As of February 2014, the department was assessing the risk of the 60 users with incompatible access and developing mitigating controls for the higher risk incompatibilities.

Recommendation

- *The Department of Human Services should eliminate incompatible access to the state's accounting system or implement mitigating controls when eliminating incompatible access is not feasible.*

The Department of Human Services did not identify and reduce the benefits of some recipients of federal cash assistance who did not cooperate with child support enforcement requirements. This is a repeat finding.¹⁴

Finding 3

The department did not identify or reduce Temporary Assistance for Needy Families (CDFR 93.558) cash assistance benefits for some recipients who refused to cooperate with child support enforcement requirements. It did not identify these cash assistance recipients because of a flaw in the report designed by department staff to address a defect in the programing that communicated the noncooperation status in the child support enforcement system.

Title 45, Code of Federal Regulations, section 264.30, states that for cash assistance recipients, the state "must refer all appropriate individuals in the family of a child, for whom paternity has not been established or for whom a child support order needs to be established, modified or enforced, to the child support enforcement agency." In addition, if the child support enforcement agency determines that an individual is not cooperating, and does not have good cause for that noncooperation, the state must take appropriate action by doing the following:

¹⁴ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit* (Finding 5), issued July 11, 2013.

1. Deducting from the assistance that would otherwise be provided to the family of the individual an amount equal to not less than 25 percent of the amount of such assistance; or
2. Denying the family any assistance under the program.

To comply with this federal requirement, the state electronically matched its file of Temporary Assistance for Needy Families recipients to its file of parents who did not comply with the department's child support enforcement efforts. For all recipients identified through the file match, the cash assistance eligibility system sent electronic notification messages to county workers, who then determined the reduction to the noncooperative parent's cash assistance benefits. However, because of a defect in the communication between the child support enforcement system and the cash assistance eligibility system, the county workers did not get messages if the recipient applied for cash assistance benefits after the date of noncooperation in the child support enforcement system.

To address this defect, department staff designed a monthly report to identify cases where the recipient applied for cash assistance benefits after the date of noncooperation on the child support enforcement system. However, the report only identified instances of noncooperation from May 10, 2011, forward and did not include instances of noncooperation that occurred before that date. As a result, department staff did not have the information they needed to reduce cash assistance benefits for new recipients who had not cooperated with child support enforcement before May 10, 2011.

During fiscal year 2013, the state had about 11,000 Temporary Assistance for Needy Families recipients that did not cooperate with child support enforcement requirements; for about 2,000 of those, the date of their noncooperation with child support enforcement requirements was before May 10, 2011. Two of the 25 cases we tested (where the family had received cash assistance benefits through the Temporary Assistance for Needy Families program and a parent had not cooperated with child support enforcement) did not have their cash assistance benefits reduced. Both of these cases had the noncooperation noted in the child support enforcement system before May 10, 2011. If these cases had been included on the monthly report, benefits for these two recipients would have been reduced by a total of \$789 for fiscal year 2013.

Recommendation

- *The department should revise its exception report to identify Temporary Assistance for Needy Families recipients who had not cooperated with child support enforcement efforts before May 10, 2011, so that it can reduce cash assistance benefits as required by federal regulations.*
-

The Department of Human Services did not adequately monitor some aspects of the Child Care Assistance Program.

Finding 4

The department did not adequately monitor the following aspects of the Child Care Assistance Program (CFDA 93.575 and 93.596):¹⁵

- **Insufficient oversight of counties' efforts to detect and collect fraudulent child care payments.** (This is a repeat finding.)¹⁶ The department had not fully implemented its plan to ensure counties fulfilled their responsibilities to detect and collect fraudulent child care payments. The department delegated those responsibilities to the counties because the counties are responsible for administration of the child care assistance program, while the department provided monitoring of the counties' responsibilities.¹⁷

Title 45, Code of Federal Regulations, section 98.60(i), says that the state:

...shall recover child care payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud.

Since our 2012 Federal Compliance Audit,¹⁸ the department developed but had not implemented procedures to monitor counties' fraud detection efforts. Department staff told us that they planned to monitor reports from its child care system¹⁹ to help identify potential fraudulent activities. The department also created the Child Care Provider Fraud Investigation Unit within its Office of the Investigator General. As of January 2014, the department was hiring staff for the Child Care Provider Fraud Investigation Unit and developing the child care system reports. The unit's main responsibility will be to investigate and monitor child care provider fraud payments for all counties and assist in investigating client eligibility fraud for counties not participating in the Fraud Prevention Investigation Program. The Fraud Prevention Investigation Program is a county level program that investigates alleged public assistance fraud, including child care assistance.

¹⁵ See Appendix A, p. 22, for the federal award numbers for these programs.

¹⁶ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit* (Finding 3), issued July 11, 2013.

¹⁷ Per Department of Human Services bulletin #13-68-13, p. 2: County human services agencies are responsible for identifying and reporting possible Child Care Assistance Program (CCAP) fraud as they become aware of it. Additionally, counties are responsible for acting on fraud determinations and collecting fraudulent child care payments.

¹⁸ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit*, issued July 11, 2013.

¹⁹ Minnesota Electronic Child Care System (MEC²).

- **Lack of on-site grant monitoring visits** – During fiscal year 2013, the department did not effectively monitor subrecipients’ use of grant money as required by its Child Care and Development Fund plan, approved by the federal government. During fiscal year 2013, the department paid about \$10 million to 22 subrecipients through grants to provide child care resources and referral services to the public.

In section 1.3.2 of the Child Care and Development Fund plan, the department described the processes it would use to monitor these subrecipients. Included in its description of monitoring activities, the department stated the following:

The Department also requires on-site monitoring visits with the agencies once during each grant/contract period and maintains ongoing communication and technical assistance with the agencies throughout the grant/contract period.

The department told us that they did not conduct these on-site monitoring visits during fiscal year 2013 because they reassigned staff to other priorities. Department staff told us that the on-site monitoring visits allowed the state to verify that grantees had appropriate financial processes, policies and procedures in place to ensure that the organizations spent federal funds only on allowable activities. Without the on-site visits, the department cannot ensure that grantees spent child care funds effectively and only on allowable activities.

- **Late child care center licensing site visits** – The department did not always perform unannounced child care center licensing site visits “once every two years” as stated in its Child Care and Development Fund plan, section 3.1.3, approved by the federal government.²⁰ For 15 of the 42 child care centers we tested, the department had not conducted licensing site visits within the two year requirement, exceeding the limit by one and one-half to seven months. Timely licensing visits are necessary to protect the health and safety of children served by child care centers. During licensing visits, the state can verify that the child care centers met requirements pertaining to the prevention and control of infectious diseases, the safety of building and physical premises, and providers’ training for basic health and safety practices. Without timely licensing visits, health and safety issues may exist at child care centers without timely detection and correction.

²⁰ DHS centrally licenses child care centers; counties license other types of child care providers and are responsible to ensure that all licensing requirements are followed. Our testing of the state’s oversight of counties’ licensing site visits to group and family child care providers did not identify weaknesses.

Recommendations

- *The department should implement monitoring procedures to ensure counties make efforts to detect and collect fraudulent child care payments.*
- *The department should perform on-site monitoring visits once per grant period to ensure grantees spent federal funding effectively and only on allowable activities.*
- *The department should ensure it monitors and enforces licensing requirements for child care centers within the required two year period.*

The Department of Human Services did not adequately monitor the validity of income discrepancies for several major federal programs. This is a repeat finding.²¹

Finding 5

During fiscal year 2013, the department did not adequately monitor the validity of discrepancies identified by the electronic file matches of reported income amounts to other government data for recipients of the Medical Assistance (CFDA 93.778), Temporary Assistance for Needy Families (CFDA 93.558), and Supplemental Nutrition Assistance (CFDA 10.551) programs.²² The department conducted these electronic file matches as part of its income eligibility verification system required by federal regulations.²³ The regulations also require the state to resolve at least 80 percent of the discrepancies within 45 days.²⁴

The department electronically matched recipients' reported income amounts to electronic data files at the Internal Revenue Service, Social Security Administration, and Minnesota Department of Employment and Economic Development. Through the department's automated eligibility system, it sent monthly and quarterly electronic messages of file match discrepancies to county

²¹ Office of the Legislative Auditor, Financial Audit Division Report 13-05, *Department of Human Services Information Verification in Eligibility Determinations*, (Finding 2) issued March 26, 2013.

²² See Appendix A, p. 22, for the federal award numbers for these programs.

²³ Title 45, Code of Federal Regulations, section 205.56, requires the state to have an eligibility and income verification system for the Temporary Assistance for Need Families program. Title 42, Code of Federal Regulations, section 435.952, requires the state to have an eligibility and income verification system for the Medical Assistance program; this regulation ended as of December 31, 2013. Title 7, Code of Federal Regulations, section 273.2, allows the state to use an income and eligibility verification system to verify the eligibility and benefit levels of applicants and participating households of the Supplemental Nutrition Assistance programs.

²⁴ Title 45, Code of Federal Regulations, section 205.56 (a) (1) (iv).

eligibility workers.²⁵ The department monitored county resolution reports to ensure counties complied with the federal requirement that they resolve 80 percent of the discrepancies with 45 days. However, because the file matches typically identified about 260,000 discrepancies each year, we were skeptical about the diligence of county eligibility workers' resolution efforts and recommended to the department that it better monitor counties' discrepancy resolution processes to ensure they are effective and that recipients were eligible for the benefits they received through these programs.

In September 2013, the department completed a study²⁶ on the income and eligibility verification process for the Minnesota Family Investment Program, which includes the federal Temporary Assistance to Needy Families program. The study identified changes the department should make within its automated eligibility system so that the file matching process better identifies discrepancies with a greater chance of affecting a recipient's eligibility or level of benefits. By reducing the number of discrepancies, the county workers could focus their efforts on resolving these higher risk discrepancies. In October 2013, based on the results of the study, the department submitted a request to its Office of MN.IT Services staff to make the suggested changes to the automated eligibility system for the Minnesota Family Investment Program; however, as of February 2014, the Office of MN.IT Services had not implemented the requested changes. In addition, the department had not further assessed how these changes may provide better oversight of counties resolution of file match discrepancies for the Supplemental Nutrition Assistance Program.

The income eligibility verification requirement for the Medical Assistance program changed on January 1, 2014, because of the implementation of the federal Patient Protection and Affordable Care Act. Under that act, the state's health care exchange, MNsure, will verify applicants' data through a federal data hub. See further discussion about the department's transition of Medical Assistance eligibility determinations to the health care exchange in Finding 1.

Recommendations

- *The department should work with the Office of MN.IT Services to execute changes to the automated eligibility system to better identify higher risk income and eligibility discrepancies for Temporary Assistance for Needy Families program.*

²⁵ In fiscal year 2013, the department used an automated eligibility system called MAXIS for Medical Assistance, Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance programs. In fiscal year 2014, the department started transitioning eligibility for the Medical Assistance program to its health insurance exchange, MNsure, which it implemented on October 1, 2013.

²⁶ The study used Six Sigma techniques and tools for process improvement. The focus of Six Sigma is to improve the quality of process outputs by identifying and removing the causes of defects (errors).

- *The department should assess the effectiveness of the electronic file matching process for the Supplemental Nutrition Assistance Program.*

The Department of Human Services did not perform the required percentage of long-term care facility audits.

Finding 6

The department did not audit the minimum required 15 percent of the long-term care (nursing) facility data in fiscal year 2013 for its Medical Assistance Program (CFDA 93.778)²⁷ as required by *Minnesota Statute 256B.27*, subd. 2a. The statute says:

The commissioner shall select for audit at least 15 percent of the nursing facilities' data reported.... The commissioner shall meet the 15 percent requirement by either conducting an audit focused on an individual nursing facility, a group of facilities, or targeting specific data categories in multiple nursing facilities....

Both state and federal provisions require the department to perform audits of long-term care facilities. *Minnesota Statute 256B.27*, subd. 1, says:

In the interests of efficient administration of the medical assistance to the needy program and incident to the approval of rates and charges therefor, the commissioner of human services may require any reports, information, and audits of medical vendors which the commissioner deems necessary.

Title 42, Code of Federal Regulations, section 447.253 (g), requires the department to perform the audits. The federal regulation says:

The Medicaid agency must provide for periodic audits of the financial and statistical records of participating providers.

Although the department performed audits of long-term care facilities, it did not meet the required 15 percent coverage. The department calculated its audit coverage at about 13.6 percent of the nursing facilities' data. The department calculated its percentage of coverage based on the sum of all the data reported by nursing facilities on cost reports each year. The department realized it had not obtained the required coverage when it calculated the percentage of coverage after it completed the audit work. The department could have better ensured compliance if it had calculated the needed coverage as it planned its audit approach. The audits are essential in determining if the rates paid to nursing facilities are reasonable and adequate to meet the costs that must be incurred by nursing facilities.

²⁷ See Appendix A, p. 22, for the federal award number for this program.

Recommendation

- *The department should ensure that it meets the required 15 percent audit coverage of the long term care facilities.*

Finding 7

The Department of Human Services had not obtained some information the federal government required from its subrecipients before issuing subawards. This is a repeat finding.²⁸

The department had not obtained the Data Universal Numbering System (DUNS) numbers from some of its subrecipients for the following programs: Medical Assistance (CFDA 93.778), Child Care Cluster (CFDA 93.575 and 93.596), Foster Care (CFDA 93.658), Temporary Assistance for Needy Families (CFDA 93.558), and State Administrative Matching Grants for the Supplemental Nutrition Assistance programs (CFDA 10.561).²⁹ The federal government requires the state, and other grantees, to obtain DUNS numbers before it passes federal money through to subrecipients. Specifically, Appendix A of Title 2, Code of Federal Regulations, Part 25, requires the following of the state when it makes subawards of federal grant money:

If you are authorized to make subawards under this award, you:

1. Must notify potential subrecipients that no entity...may receive a subaward from you unless the entity has provided its DUNS number to you.
2. May not make a subaward to an entity unless the entity has provided its DUNS number to you.

During fiscal year 2013, the department obtained the Data Universal Numbering System numbers for all of the counties; however, it had not obtained DUNS numbers from 32 other subrecipients.

Recommendation

- *The department should obtain the Data Universal Numbering System numbers from each subrecipient when making subawards.*

²⁸ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit* (Finding 8), issued July 11, 2013.

²⁹ See Appendix A, p. 22, for the federal award numbers for these programs.

The Department of Human Services did not adequately communicate required federal award information to some of its subrecipients. This is a repeat finding.³⁰

Finding 8

The department did not communicate required federal award information to some subrecipients for the Temporary Assistance for Needy Families (CFDA 93.558 and 93.714) and Supplemental Nutrition Assistance (CFDA 10.561) programs at the time of the grant award, and provided incorrect award information to some other Temporary Assistance for Needy Families subrecipients.³¹

Title 2, Code of Federal Regulations, section 200.331, requires the state to notify all subrecipients of the following:

All pass-through entities must:

- (a) Ensure that every subaward is clearly identified to the subrecipient as a subaward and includes the following information at the time of the subaward.

This required information includes, but is not limited to, code of federal domestic award number, award name, and name of the federal awarding agency.

In addition, Title 2, Code of Federal Regulations, section 176.210 (c), requires the state, as a recipient of federal American Recovery and Reinvestment Act funds, to do the following:

Recipients agree to separately identify to each subrecipient, and document at the time of the subaward and at the time of disbursement of funds, the Federal award number, CFDA number, and amount of Recovery Act funds. When a recipient awards Recovery Act funds for an existing program, the information furnished to subrecipients shall distinguish the subawards of incremental Recovery Act funds from regular subawards under the existing program.

The department had not adequately communicated federal award information for the following programs:

- **Temporary Assistance to Needy Families** – The department did not communicate the federal award information to two of the seven subrecipients we tested. The department paid these two subrecipients a total of \$748,100 during fiscal year 2013. The department staff that

³⁰ Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit* (Finding 8), issued July 11, 2013.

³¹ See Appendix A, p. 22, for the federal award numbers for these programs.

initiated these two grant agreements stated that they were unaware of the federal requirement to communicate the federal award information.

The department did not update its communication of federal award information for two subrecipients when it changed the funding to money it had remaining from the related federal American Recovery and Reinvestment Act fund. The department paid these subrecipients a total of \$558,007 during fiscal year 2013.

Because the department did not correctly code payments totaling about \$1 million from American Recovery and Reinvestment Act funds, it did not provide subrecipients with accurate information about the federal award. The department used a code in the state's accounting system that communicated to the payees the purpose of the payments including the federal award information. The payments to the subrecipients (primarily counties) incorrectly identified the funding source as regular award funds.

- **Supplemental Nutrition Assistance Program** – When we inquired about why none of the five subrecipients we tested had received federal award information from the department, department staff told us that they inadvertently did not communicate the federal award information to subrecipients. Staff that processed about \$9.8 million of Supplemental Nutrition Assistance Program grants to subrecipients in fiscal year 2013 were unfamiliar with the requirements.

Without accurate federal award information, subrecipients might not be aware of applicable federal program requirements and compliance with those requirements might not occur.

Recommendation

- *The department should provide all required federal award information to subrecipients.*

Finding 9

The Department of Human Services did not reconcile the revenue from its child support enforcement system to the state's accounting system. This is a repeat finding.³²

During fiscal year 2013, the department did not reconcile revenue activity recorded in its child support enforcement system to the revenue recorded in the state's accounting system. Department staff reconciled the expenditure activity in total between the two systems but did not reconcile the revenue activity. The

³² Office of the Legislative Auditor, Financial Audit Division Report 13-15, *Department of Human Services Federal Compliance Audit* (Finding 9), issued July 11, 2013.

department received about \$619 million of child support enforcement-related revenue in fiscal year 2013.

The federal government requires effective internal controls in the state's administration of federal grant programs. U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*, Part 6, provided to help non-Federal entities comply with internal control requirements, states, "The characteristics of internal control are presented in the context of the components of internal control discussed in *Internal Control-Integrated Framework* (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements."

The *Internal Control-Integrated Framework* identifies control activities as one of its five components of internal control. The framework describes control activities as the policies and procedures that help ensure management directives are carried out, and states that control activities include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets and segregation of duties. The Department of Management and Budget's Statewide Operating Policy Number 0102-01, *Internal Control*, states that the periodic reconciliation of one accounting system to another is an example of a control activity.

Reconciling transactions in the child support enforcement system to the state's accounting system would allow the department to detect errors or inappropriate transactions. Without a complete reconciliation of all the financial activity, the department cannot ensure the integrity of its accounting records.

Recommendation

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

**Appendix A
Major Federal Programs
Department of Human Services
Fiscal Year 2013**

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Award Number</u>
<u>Food and Nutrition Services Cluster</u>		
10.551	Supplemental Nutrition Assistance Program	2012ID281142, 2012ID282142, 2012IS601842, 2012IS604542, 2012IS802642, 2013ID281142, 2013ID282142, 2013IS601842, 2013IS604542, 2013IS802642
10.561	State Administrative Matching Grants	2011IQ390342, 2012IE251842, 2012IS251442, 2012IS251942, 2012IS252042, 2012IS750342, 2012IS803642, 2012IS820442, 2013IE251842, 2013IS251942, 2013IS252042, 2013IS750342, 2013IS803642
<u>Temporary Assistance for Needy Families Cluster</u>		
93.558	Temporary Assistance for Needy Families	1102MNTANF, 1202MNTANF, 1302MNTANF
93.714	Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs ARRA	1001MNTAN2
93.563	Child Support Enforcement	1104MN4004, 1204MN4005, 1304MN4005
<u>Child Care Cluster</u>		
93.575	Child Care and Development Block Grant	1101MNCCDF
93.596	Child Care Mandatory and Matching Fund	1201MNCCDF, 1301MNCCDF
93.658	Foster Care – Title IV-E	1101MN1401, 1101MN1404, 1201MN1401, 1301MN1401
93.667	Social Services Block Grant	1101MNSOSR, 1201MNSOSR, 1301MNSOSR
<u>Medicaid Cluster</u>		
93.775	State Medical Fraud Control Units	011201MN5050, 011301MN5050
93.777	State Health Care Providers Survey	1205MN5001, 1305MN5001
93.778	Medical Assistance Program	1105MN5ADM, 1105MN5MAP, 1105MNHITA, 1205MN5ADM, 1205MN5MAP, 1305MN5ADM, 1305MN5MAP, 1305MNIMPL, 1305MNINCT

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



Minnesota Department of **Human Services**

March 21, 2014

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, 2013. We appreciate and value the thorough examination of our major federal programs, and appreciated working with your dedicated and professional staff during this audit.

The department recognizes that several findings are repeat findings from prior year reports. We take these findings seriously and have worked hard over the past year to strengthen and improve controls in these areas. We also sought and received funding for up to five new auditors for our Internal Auditor Office. These additional staff will allow the department to be more proactive in how we identify and address control issues.

While we have made significant progress with our overall control environment, this report reminds us that we still have a significant amount of work ahead of us as we strive to improve controls over our major federal programs. Below are the department's responses to the findings and recommendations in the 2013 Federal Compliance Audit.

Audit Finding 1

The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements. This is a repeat finding.

Audit Recommendation 1

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.

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2013

Response to Audit Recommendation 1

The department takes very seriously our obligation to identify and manage risks for the federal programs. Since the initial reporting of this finding, the department has hired an Enterprise Risk Management Coordinator, chartered an Enterprise Risk Management Planning Team, developed a multi-year risk assessment plan, and has invested in training to strengthen our internal control awareness.

While we have built capacity and momentum in this effort, we acknowledge that we still have some work ahead. Today the department has completed comprehensive risk assessments of the federal Social Services Block Grant Program and of the Supplemental Nutrition Assistance Program (SNAP). Additionally, we have commenced the assessment of the Temporary Assistance for Needy Families (TANF) program. We are currently on track to complete the initial risk assessments on our major federal programs by December 2015.

Your audit also noted past audit findings on income verification for MinnesotaCare eligibility. Functionality to verify projected annual income for MinnesotaCare was installed in the MNsure technology on March 1, 2014. We have been monitoring the performance and testing cases and the system appears to be correctly verifying project income for MinnesotaCare cases. We will continue to monitor system performance regarding this issue.

Responsible Person: David Forbes
Estimated Completion Date: December 2015

Audit Finding 2

The Department of Human Services allowed employees to have incompatible access to the state's accounting system without implementing adequate mitigating controls.

Audit Recommendation 2

The Department of Human Services should eliminate incompatible access to the state's accounting system or implement mitigating controls when eliminating incompatible access is not feasible.

Response to Audit Recommendation 2

The department has reviewed and eliminated incompatible access to the extent possible. In cases where incompatible access is cannot be eliminated, we have assessed the risk of the incompatible access and identified mitigating controls that are in place. A written document has been prepared detailing DHS's risk assessment and mitigating controls that are in place. This document was completed on February 25, 2014. DHS will continue to monitor incompatible access and update this document as necessary to address changes in business processes. DHS will also work with MMB on roles that have been identified as incompatible where DHS feels mitigating controls exist within SWIFT that may address incompatibility.

Responsible Person: Terri Engel
Estimated Completion Date: Completed, February 25, 2014

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2013

Audit Finding 3

The Department of Human Services did not identify and reduce the benefits of some recipients of federal cash assistance who did not cooperate with child support enforcement requirements. This is a repeat finding.

Audit Recommendation 3

The department should revise its exception report to identify Temporary Assistance for Needy Families recipients who had not cooperated with child support enforcement efforts before May 10, 2011, so that it can reduce cash assistance benefits as required by federal regulations.

Response to Audit Recommendation 3

The department will review the 2,000 cases identified through the audit for further action. The department is actively working to assure that TANF cases are placed in sanction if there is non-cooperation with child support. The department produces a quarterly report that details cases that are active on MFIP and coded for non-cooperation in PRISM, the child support case management system. Department staff then follow up with the county worker to assure the case has been corrected. This effort has reduced the number of cases with errors.

To assure compliance with this requirement, the department is taking the following actions: MFIP and child support policy divisions will issue policy clarifications, update curriculum, and make county presentations that detail what steps should be taken to assure a sanction is imposed if the case is in non-cooperation with child support.

Responsible Person: Mark Toogood/Jeff Jorgenson
Estimated Completion Date: June 30, 2014

Audit Finding 4

The Department of Human Services did not adequately monitor some aspects of the Child Care Assistance Program.

Audit Recommendation 4-1

The department should implement monitoring procedures to ensure counties make efforts to detect and collect fraudulent child care payments.

Response to Audit Recommendation 4-1

The department is committed to preventing and addressing fraud across all our programs. We have been particularly concerned about vulnerabilities in the Child Care Assistance Program (CCAP), which is why we sought and received 6 positions for a new Child Care Fraud Investigation Section within the Office of the Inspector General (OIG). This new section is responsible for investigating child care provider fraud, monitoring the related provider fraud recoveries and investigating client eligibility fraud through the Fraud Prevention Investigation Program. We are in the process of hiring data analysts to help us support our efforts. As of March

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2013

2014, the department issued a bulletin (13-68-13) instructing counties on the process for identification and referral of child care provider fraud cases.

Responsible Person: Vicki Kunerth/Mary Orr
Estimated Completion Date: June 30, 2014

Audit Recommendation 4-2

The department should perform on-site monitoring visits once per grant period to ensure grantees spent federal finding effectively and only on allowable activities.

Response to Audit Recommendation 4-2

The department has resumed on-site monitoring visits once per grant period effective with state fiscal year 2014.

Responsible Person: Mary Orr
Estimated Completion Date: June 30, 2015

Audit Recommendation 4-3

The department should ensure it monitors and enforces licensing requirements for child care centers within the required two year period.

Response to Audit Recommendation 4-3

The department appreciates the importance of conducting a re-licensing visit to child care centers every two years and strives to make timely visits whenever possible. The finding that 15 of 42 licensing reviews were one and a half to seven months late was due to the overall complexity of the work in this area increasing over recent years. This included increased licensing complaints to investigate and increased appeals. In addition, child care licensor caseloads currently average 200 programs per licensor, which is a large caseload compared to national averages.

Four additional positions were added to this area as a result of the 2013 legislative session, including two licensors who will be part of a special team to address particularly challenging providers. As of March 2014, we are in the final stages of hiring the additional staff. We anticipate that the additional staff will positively impact the timeliness of the child care center licensing reviews.

Responsible Person: Mary Kelsey
Estimated Completion Date: June 30, 2015

Audit Finding 5

The Department of Human Services did not adequately monitor the validity of income discrepancies for several major federal programs. This is a repeat finding.

Audit Recommendation 5-1

**Department of Human Services’
Response to the Legislative Audit Report titled
*The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2013***

The department should work with the Office of MN.IT Services to execute changes to the automated eligibility system to better identify higher risk income and eligibility discrepancies for Temporary Assistance for Needy Families program.

Response to Audit Recommendation 5-1

Since this finding last year, DHS completed a Six Sigma project that designed a better way to review and verify income discrepancies. Required changes to MAXIS that resulted from the DHS Six Sigma project are currently in the DHS and MN.IT Gateway prioritization process.

Responsible Person: Ramona Scarpace/Rita Sjoberg
Estimated Completion Date: June 30, 2015

Audit Recommendation 5-2

The department should assess the effectiveness of the electronic file matching process for the Supplemental Nutrition Assistance Program.

Response to Audit Recommendation 5-2

The department has one FTE in place to monitor data matches resulting from the Public Assistance Reporting and Information System (PARIS) file. Currently, this FTE is also being trained to monitor Income Eligibility Verification System (IEVS) matches for timely resolution and follow up. This IEVS monitoring will begin in April 2014. In addition, the department is working to modernize some of the existing IEVS reports generated from MAXIS to create efficiencies in timeliness resolution tracking. Required changes to MAXIS as identified in the Office of Legislative Auditor’s report and also suggested as a result of a DHS Six Sigma project are currently in the DHS and MN.IT Gateway prioritization process.

Responsible Person: Ramona Scarpace
Estimated Completion Date: December 31, 2015

Audit Finding 6

The Department of Human Services did not perform the required percentage of long-term care facility audits.

Audit Recommendation 6

The department should ensure that it meets the required 15 percent audit coverage of the long term care facilities.

Response to Audit Recommendation 6

We agree with the finding that the 15% test was not met in state fiscal year 2013. The percentage will be monitored more closely in the current and future fiscal years to ensure we meet the statutory requirement.

Responsible Person: Greg TaBelle
Estimated Completion Date: June 30, 2014

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2013

Audit Finding 7

The Department of Human Services had not obtained some information the federal government required from its subrecipients before issuing subawards. This is a repeat finding.

Audit Recommendation 7

The department should obtain the Data Universal Numbering System numbers from each subrecipient when making subawards.

Response to Audit Recommendation 7

The department has taken several steps, starting in state fiscal year 2014, to obtain this information from our subrecipients. Our plan is to have all DUNS numbers captured before the end of state fiscal year 2014.

Responsible Person: Chris Ricker
Estimated Completion Date: June 30, 2014

Audit Finding 8

The Department of Human Services did not adequately communicate required federal award information to some of its subrecipients. This is a repeat finding.

Audit Recommendation 8

The department should provide all required federal award information to subrecipients.

Response to Audit Recommendation 8

In state fiscal year 2014, the department has made several enhancements to our contracting process and payment systems to ensure we meet this requirement in the future.

Responsible Person: Chris Ricker
Estimated Completion Date: June 30, 2014

Audit Finding 9

The Department of Human Services did not reconcile the revenue from its child support enforcement system to the state's accounting system. This is a repeat finding.

Audit Recommendation 9

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2013

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

Response to Audit Recommendation 9

The department has developed a daily reconciliation of child support enforcement system expenditures and revenues.

Responsible Person: Chris Ricker
Estimated Completion Date: Completed, February 2014

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,



Lucinda E. Jesson
Commissioner