



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Human Services
Fiscal Year Ended June 30, 2000



MARCH 8, 2001

01-10

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota State government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately fifty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year and one best practices review.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of Representatives and Senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Department of Human Services

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Michael Hassing, CPA	Auditor-in-Charge
Carl Otto, CPA	Team Leader
Mark Mathison, CPA, CISA	Team Leader
Mike Byzewski	Auditor
Crystal Eskridge	Auditor
Gena Hoffman	Auditor
Alan Sasse	Auditor
Sheila Tye	Intern

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Human Services on March 1, 2001:

Dennis Erickson	Assistant Commissioner
Jon Darling	Director of Financial Management
Dave Ehrhardt	Director of Internal Audit

Report Summary

Key Findings and Recommendations:

- The Department of Human Services did not promptly request medical assistance reimbursement for certain clients at the department's regional treatment centers and long-term care facilities. The department did not bill the \$22 million due for the period January to June 2000 until February 2001. Ideally, billings should be submitted at least monthly. The department should resolve the billing problems within its state operated services computer system and ensure that it promptly requests all medical assistance reimbursements for its clients. (Finding 1, page 4)
- The Department of Human Services did not properly record certain child support transactions within the state's accounting system. The department should perform reconciliations that ensure child support collections and disbursements are properly recorded on the state's accounting system. As part of the reconciliation process, the department should identify and explain any differences between actual child support collections and disbursements recorded on PRISM and MAPS. The department should work with the Department of Finance to resolve child support transaction errors on MAPS and record the necessary adjusting transactions. (Finding 2, page 4)

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally funded programs. The scope of work in individual agencies is limited. During the fiscal year 2000 audit, our work at the Department of Human Services focused on major public assistance programs, including medical assistance, temporary assistance for needy families, and food stamps; and on other grant programs, including federal social services, community social services, and chemical dependency treatment. We reviewed cost of care revenues for the department's residential treatment centers and group homes. We also reviewed child support collections and disbursements. Finally, we performed procedures on a number of federally funded programs administered by the department to determine whether the department complied with certain federal requirements. The department's response is included in the report.



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael O’Keefe, Commissioner
Department of Human Services

We have performed certain audit procedures at the Department of Human Services as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 2000. We have also audited certain federal financial assistance programs administered by the Department of Human Services as part of our audit of the state’s compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. We emphasize that this has not been a comprehensive audit of the Department of Human Services.

Table 1 identifies the financial activities within the Department of Human Services that were material to the state’s financial statements. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota’s financial statements for the year ended June 30, 2000, were free of material misstatement.

Table 1
Programs Material to the State’s Financial Statements
Fiscal Year 2000

	<u>Amount</u>
Revenue Areas	
Child Support – PRISM	\$ 499,997,000
State Operated Community Services Cost of Care	40,968,000
Residential Treatment Center Cost of Care	36,035,000
Chemical Dependency Cost of Care	14,736,000
Expenditure Areas	
Medical Assistance	\$3,712,770,000
Child Support – PRISM	504,283,000
Family Support (TANF and Food Stamps)	488,863,000
Foster Care	92,221,000
Social Services Block Grant	74,139,000
Consolidated Chemical Dependency Treatment	71,217,000
Group Residential Housing Grants	63,224,000
Community Social Services	27,774,000

Note: We also audited certain statutory transfers from the Health Care Access Fund and other administrative aids and transfers.

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

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Table 2 identifies the State of Minnesota's major federal programs administered by the Department of Human Services. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs.

Table 2
Major Federal Programs Administered by the Department of Human Services
Fiscal Year 2000

<u>Program Name</u>	<u>CFDA #</u>	<u>Federal Share</u>
Medical Assistance	93.778	\$1,848,753,000
Food Stamps Cluster: ⁽¹⁾		
Food Stamps	10.551	165,752,000
Food Stamps Administration	10.561	35,095,000
Temporary Aid for Needy Families (TANF)	93.558	201,697,000
Child Support Enforcement	93.563	67,944,000
Social Services Block Grant (Title XX)	93.667	77,047,000
Foster Care IV-E	93.658	112,373,000
Aging Cluster:		
Special Programs for the Aging – IIIB	93.044	7,208,000
Special Programs for the Aging – IIIC	93.045	6,615,000

(1) The value of the Food Stamp inventory on hand at June 30, 2000, totaled \$28,810,902.

Note: We also audited the department's cash management practices and other general compliance requirements related to federal assistance.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

Our December 1, 2000, report included an unqualified opinion on the general-purpose financial statements of the State of Minnesota's Comprehensive Annual Financial Report as of June 30, 2000. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 2000, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our procedures, we identified the following weaknesses in internal control or instances of noncompliance with finance-related legal provisions or program requirements at the Department of Human Services.

Department of Human Services

1. The Department of Human Services did not promptly request medical assistance reimbursement for certain clients at the department's regional treatment centers and long-term care facilities.

During part of fiscal year 2000, the Department of Human Services did not request medical assistance reimbursements for certain clients at its regional treatment centers and long-term care facilities. In the fall of 1999, the department implemented a new computer system to record the financial activity of all state operated services, including the regional treatment centers. This computer system, called Behavior Health Information System (BHIS), tracks the billings for the department's clients, including amounts owed from medical assistance. However, due to implementation problems, BHIS could not generate medical assistance bills for certain clients.

As a result, the department did not receive its medical assistance reimbursements for part of fiscal year 2000 for these clients. In early February 2001, the department successfully generated approximately \$22 million in medical assistance bills for the period from January through June 2000. The department still needs to make additional billings for medical assistance reimbursements through December 2000.

Since federal regulations require providers to submit all medical assistance claims within one year of the date of service, the department may not be able to receive reimbursement for certain medical costs it incurred. In addition, the state loses investment income because the General Fund incurs the total cost of care for the clients until federal reimbursement is received.

Recommendation

- *The Department of Human Services should resolve its BHIS billing problems and ensure that it promptly requests all medical assistance reimbursements for its clients.*

2. The Department of Human Services did not properly record certain child support transactions within the state's accounting system.

The Department of Human Services did not ensure that child support collections were properly recorded in MAPS, the state's accounting system. The department records incoming child support collections in a separate computer system called PRISM. Although the department routinely reconciled financial activity recorded on PRISM to MAPS, it failed to detect certain inconsistencies and cumulative differences between the two systems. For example, the department's reconciliation process did not detect that MAPS had never posted a \$1.3 million child support transaction, even though the activity was properly recorded in PRISM. In other cases, the department did not adequately pursue and resolve differences between PRISM and MAPS that staff identified during reconciliations.

Also, the department did not correct an increasingly large child support accounts receivable amount recorded in MAPS that was not valid. MAPS inaccurately showed \$23 million of child support to be collected by the department as of June 30, 2000. This accounts receivable amount

Department of Human Services

was due to MAPS transaction coding errors, and not due to any actual delay in collecting or distributing child support.

Recommendations

- *The Department of Human Services should perform reconciliations that ensure child support collections and disbursements are properly recorded on the state's accounting system. As part of the reconciliation process, the department should identify and explain any differences between actual child support collections and disbursements recorded on PRISM and MAPS.*
- *The department should work with the Department of Finance to resolve child support transaction errors on MAPS and record the necessary adjusting transactions.*

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Human Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 8, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 31, 2001

Report Signed On: March 2, 2001

**Status of Prior Audit Issues
As of January 31, 2001**

March 14, 2000, Legislative Audit Report 00-08 examined the Department of Human Services activities and programs material to the State of Minnesota's Annual Financial Report or the Single Audit for the year ended June 30, 1999. The scope included the administration of the state's Medical Assistance and other health care programs, the various income maintenance programs, and other federal and state programs. The report contained five findings. The department has resolved all of the findings.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as Metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Minnesota Department of **Human Services**

March 2, 2001

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

Dear Mr. Nobles:

The enclosed material is the Department of Human Services response to the findings and recommendations included in the draft audit report of the financial and compliance audit conducted by your office for the year ended June 30, 2000. It is our understanding that our response will be published in the Office of the Legislative Auditor's final audit report.

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 David Ehrhardt, Internal Audit Director, at (651) 282-9996.

Sincerely,

/s/ Michael O'Keefe

Michael O'Keefe
Commissioner

Enclosure

cc: Jeanine Leifeld
Michael Hassing

**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 2000**

Audit Finding #1

The Department of Human Services did not promptly request medical assistance reimbursement for certain clients at the department's regional treatment centers and long-term care facilities.

Audit Recommendation #1

The Department of Human Services should resolve its BHIS billing problems and ensure that it promptly requests all medical assistance reimbursements for its clients.

Department Response #1

We agree with the recommendation. State Operated Services is currently billing Medical Assistance through BHIS without problems for two of the four claim formats. This represents about half of all services provided. The software vendor is still revising the programming for the remaining two claim formats. Final correction of the remaining programming issues is scheduled to be completed by March 1, 2001. All claims will be submitted to Medical Assistance immediately following installation of the revised software programs.

Person Responsible: Fran Bly, Director, State Operated Service Support Division

Estimated Completion Date: April 30, 2001

Audit Finding #2

The Department of Human Services did not properly record certain child support transactions within the state's accounting system.

Audit Recommendation #2-1

The Department of Human Services should perform reconciliations that ensure child support collections and disbursements are properly recorded on the state's accounting system. As part of the reconciliation process, the department should identify and explain any differences between actual child support collections and disbursements recorded on PRISM and MAPS.

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**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 2000**

Department Response #2-1

The department agrees with the recommendation. When we implemented the Child Support Enforcement's reconciliation procedures we concentrated on the reconciliation of cash. The department did not realize that it was also necessary to reconcile the MAPS Accounts Receivable general ledger account balance. We have implemented the following to detect possible future differences.

- We have amended our reconciliation procedures to compare the recognized revenue (includes recorded receivables) in MAPS at the fund level and appropriation level compared to revenue recorded in PRISM.
- We have established a review procedure as part of our reconciliation process. Staff from the Child Support Payment Center and the Financial Management Division will review identified problems and resolve any differences between PRISM and MAPS.
- We have amended our reconciliation procedure to review the accuracy of the MAPS accounts receivable balance for Child Support Enforcement. We have developed a new MAPS data warehouse inquiry to help with this process.

Person Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: March 31, 2001

Audit Recommendation #2-2

The department should work with the Department of Finance to resolve child support transaction errors on MAPS and record the necessary adjusting transactions.

Department Response #2-2

The department agrees with the recommendation. We met with the Department of Finance and resolved the previous transaction errors. The adjusting transactions in MAPS were processed on February 13, 2001.

Person Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: Completed