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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Management Letter

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**Department of Human Services**  
**Fiscal Year Ended June 30, 2001**



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## 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](mailto:auditor@state.mn.us)

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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
Kathy Fisher	Auditor
Gena Hoffman	Auditor
Alan Sasse	Auditor
Rob Litchke	Intern

### Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Human Services on February 28, 2002:

Dennis Erickson	Assistant Commissioner
Jon Darling	Director – Financial Management Division
David Ehrhardt	Internal Audit Director
Jack Thueson	Health Care Systems Technical Manager
Kathleen Henry	Director – Health Care Eligibility and Access
Ramona Scarpace	Director – Program Assessment and Integrity
Sally Fashant	Quality Enhancement Manager
Nina Rosefelt	Supervisor, MMIS User of Services
Maggie O’Groske	Functional Analysis Supervisor for MAXIS

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### Report Summary

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#### Key Findings and Recommendations:

- The Department of Human Services did not ensure that counties timely resolved income discrepancies identified as part of the benefit eligibility process. For certain federal assistance programs, the federal government requires the state to “coordinate data exchanges” with other federally assisted benefit programs. This includes comparing income information submitted by applicants with income information obtained from other state and federal sources. The department identified numerous public assistance recipients with income disparities and reported these cases to county social service agencies. However, the discrepancies were not resolved within the time frames established by federal program requirements. The department should work with the county social service agencies to resolve income discrepancies and to ensure that benefits are paid only to eligible recipients.
- The Department of Human Services has not successfully reconciled eligibility status information between the state’s public assistance eligibility system (MAXIS) and the medical assistance claims processing system (MMIS). For fiscal year 2001, the department did not distribute the eligibility reports during two months. In several other months, the department distributed the reports that overreported discrepancies between the systems. The department should improve the accuracy of the data used in the reporting process between the two systems to effectively monitor eligibility status for medical programs.

**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 2001 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 and 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

Senator Ann H. Rest, 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, 2001. 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, 2001. 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, 2001, were free of material misstatement.

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**Table 1**  
**Department of Human Services**  
**Programs Material to the State's Financial Statements**  
**Fiscal Year 2001 (in thousands)**

	<b>Amount</b>
<b>Revenue Areas</b>	
Child Support – PRISM	\$529,796
Residential Treatment Center Cost of Care	85,051
State Operated Community Services Cost of Care	48,143
<b>Expenditure Areas</b>	
Medical Assistance	\$4,292,975
Family Support (TANF and Food Stamps)	534,035
Child Support – PRISM	531,435
Consolidated Chemical Dependency Treatment	67,439
Foster Care	66,211
Group Residential Housing Grants	64,553
Social Services Block Grant	52,112
Community Social Services	47,058

Note: We also included other administrative aids and transfers in our audit scope.

Source: *State of Minnesota Comprehensive Annual Financial Report* and selected accounting within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2001.

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## Department of Human Services

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.

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**Table 2**  
**Major Federal Programs Administered by the Department of Human Services**  
**Fiscal Year 2001 (in thousands)**

Program Name	CFDA #	Federal Share
Medical Assistance	93.778	\$2,037,520
Food Stamps Cluster:		
Food Stamps	10.551	168,155
Food Stamps Administration	10.561	34,114
Temporary Assistance for Needy Families (TANF)	93.558	217,984
Child Support Enforcement	93.563	69,530
Foster Care IV-E	93.658	81,346
Social Services Block Grant (Title XX)	93.667	54,801
Substance Abuse	93.959	19,921

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

Source: Selected accounting within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2001.

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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 *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Conclusions

Our December 7, 2001, report included an unqualified opinion on the State of Minnesota's general purpose financial statements. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 7, 2001, 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. In March 2002, 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 audit work, we identified the following weaknesses in internal control or instances of noncompliance with federal program requirements at the Department of Human Services:

## Department of Human Services

### **1. The Department of Human Services did not ensure that counties timely resolved income discrepancies identified as part of the benefit eligibility process.**

The Department of Human Services did not make sure that counties resolved income discrepancies identified on the Income Eligibility and Verification System, as required by federal regulations, in a timely manner. For the Medical Assistance and Temporary Assistance for Needy Families programs, the federal government requires the state to “coordinate data exchanges” with other federally assisted benefit programs. This includes comparing income information submitted by applicants with income information obtained from other state and federal sources, such as the Minnesota Department of Economic Security, the Social Security Administration, and the Internal Revenue Service. The department uses the Income Eligibility and Verification System to analyze income and confirm eligibility for participants.

Discrepancies occur when the income amounts recorded in the various programs differ by more than a pre-established target amount. Since needy people apply for assistance at county social service offices, the department relies on the counties to review and resolve income disparities. The department identifies discrepancies through the Income Eligibility and Verification System and forwards the information to county social service offices. The state is required by federal law to resolve at least 80 percent of the case discrepancies the Income Eligibility and Verification System identifies within 45 days. The department produces follow-up reports to monitor the counties response time in resolving the income discrepancies.

The department is not timely resolving these income discrepancies. We looked at three recent Income Eligibility and Verification System Quarterly Timeliness Reports for the quarters ending March 31, June 30, and September 30, 2001. For each quarter, the timeliness reports indicated that in 32 to 41 percent of cases counties either had not resolved the discrepancies or had taken longer than the 45-day period to resolve them. By not timely resolving income discrepancies, the department is at risk of providing assistance payments to ineligible recipients.

#### *Recommendation*

- *DHS should work with the county social service agencies to resolve Income Eligibility Verification System discrepancies in a timely manner.*

### **2. The Department of Human Services has not successfully reconciled recipient eligibility status information between MAXIS and MMIS.**

The department has been unable to reconcile recipient eligibility status information between the state’s public assistance eligibility system (MAXIS) and the medical assistance claims processing system (MMIS) on a regular basis. Needy persons apply for public assistance at county social service offices. County employees enter applicant information into the MAXIS system, which determines eligibility for various cash assistance programs as well as medical program benefits. Once MAXIS determines eligibility, the eligibility status is entered into the MMIS system. The department produces monthly reports to monitor the eligibility status

## Department of Human Services

between the two systems. County social services offices are responsible for resolving eligibility discrepancies.

For fiscal year 2001, the department did not distribute the eligibility reports during two months. In several other months, the department distributed the reports that overreported discrepancies between the systems. The department gave county staff instructions on how to consider the discrepancies when reconciling the reports. MAXIS installed changes to modify their case status structure for the health care program in August 2001. For several months after that, problems prevented the department from producing and distributing accurate monthly discrepancy reports to the counties.

Reconciliations between MAXIS and MMIS are an essential element of the internal control system. The county social service offices maintain recipient files, determine eligibility and are responsible to resolve any discrepancies between the two systems. It is essential that the department generates complete and accurate data in order to reconcile the systems and allow counties to effectively monitor recipient eligibility in a timely manner.

### *Recommendation*

- *DHS should improve the accuracy of the data used in the reporting process between the MAXIS and MMIS systems to effectively monitor recipient eligibility status for medical programs.*

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 14, 2002.

*/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, 2002

Report Signed On: March 11, 2002



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**Status of Prior Audit Issues  
As of January 31, 2002**

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**March 14, 2001, Legislative Audit Report 01-10** examined the Department of Human Services activities and programs material to the *State of Minnesota's Comprehensive Annual Financial Report* or the Single Audit for the year ended June 30, 2000. The scope included the administration of the state's Medical Assistance Program and other health care programs, the various income maintenance programs, and other federal and state programs. The report contained two findings. The department resolved both 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**

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March 7, 2002

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, 2001. 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  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2001**

Audit Finding #1

The Department of Human Services did not ensure that counties timely resolved income discrepancies identified as part of the benefit eligibility process.

Audit Recommendation #1

*DHS should work with the county social service agencies to resolve Income Eligibility Verification System discrepancies timely.*

**Department Response #1**

We agree with the recommendation. Although the working relationship between the department and the various county social service agencies poses unique management issues, our goal will be to achieve 80 percent resolution over the next 12 months through the following actions:

- The department will issue an instructional bulletin to all county agencies concerning the federal requirements to resolve IEVS matches within the 45-day time limit.
- The department will continue to offer county financial workers on-going training on IEVS.
- We will directly follow up with county financial workers who have overdue IEVS matches.

**Person Responsible:** Ramona Scarpace, Director, Program Assessment & Integrity Division

**Estimated Completion Date:** February 28, 2003

Audit Finding #2

The Department of Human Services has not successfully reconciled recipient eligibility status information between MAXIS and MMIS.

Audit Recommendation #2

*DHS should improve the accuracy of the data used in the reporting process between the MAXIS and MMIS systems to effectively monitor recipient eligibility status for medical program.*

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2001**

**Department Response #2**

The department agrees with the recommendation. Starting in February 2002, the department was able to start distributing the monthly reconciliation reports. The MAXIS health care eligibility rewrite when completed in May 2002 will result in more accurate reporting of medical program eligibility status. MAXIS and MMIS are also developing a less error-prone process through use of the data warehouse. This new process should be functioning by June 2002.

The department's long term solution is the Health Care Automation Project. This project is intended to automate the health care eligibility process and will eliminate the need to reconcile data between systems. The design calls for electronic transmission of data between systems rather than worker manual entry in two systems.

**Persons Responsible:** Kate Wulf, Director, MAXIS Division  
Larry Woods, Director, Health Care Operations Division

**Estimated Completion Date:** June 30, 2002