OLA

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Human Services
Fiscal Year Ended June 30, 2002

MARCH 7, 2003 **03-11**

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

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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
Susan Rumpca, CPA	Auditor-in-Charge
Carl Otto, CPA,CISA	Team Leader
Doreen Bragstad, CPA	Auditor
Ching-Huei Chen, CPA	Auditor
Kathy Fisher, CPA	Auditor
John Hakes, CPA	Auditor
Gena Hoffman	Auditor
Steve Johnson, CPA, CISA	Auditor
Rob Litchke	Auditor
April Snyder	Auditor

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Human Services on February 21, 2003:

Dennis Erickson	Assistant Commissioner, Finance and Management
Jon Darling	Director, Financial Management Division
Vicki Kunerth	Director, Performance Measurement & Quality Improvement
Larry Woods	Director, Health Care Operations
David Ehrhardt	Director, Internal Audit
Ron Nail	SIRS Manager
Julie Beck	SIRS Staff Attorney

Report Summary

Key Findings:

- The Department of Human Services did not receive over $515,000 in federal funds for allowable MAXIS electronic benefit transfer (EBT) costs. Although the department made the necessary calculations to allocate MAXIS EBT costs to the TANF program, it never requested the federal funds to reimburse the allocable federal share of those costs. (Finding 1, page 4)
- The department did not ensure that counties timely resolved discrepancies identified as part of the benefit eligibility process, as required by federal regulations. For certain federal assistance programs, the federal government requires the state to "coordinate data exchanges" with other federally assisted benefit programs, including income information submitted by applicants. (Finding 2, page 5)
- The department has not fully reconciled recipient eligibility status information between the state's public assistance eligibility system (MAXIS) and the medical assistance claims processing system (MMIS). During part of fiscal year 2002, the MAXIS system was unable to produce valid eligibility status reports. (Finding 3, page 6)
- The department did not amend its Child Support Enforcement State Plan to incorporate a federal guideline requiring states to obtain applicant social security numbers on certain vehicle license applications. (Finding 4, page 7)
- The department did not adequately separate duties over receipts collected by the Special Recovery Unit. One unit employee is responsible for all receipts and accounts receivable duties within the section. (Finding 5, page 7)
- The department's process for identifying accounts receivable for financial reporting purposes was inadequate. The department did not recognize accounts receivable in accordance with applicable accounting principles and did not categorize its receivables in a way to facilitate financial reporting. (Finding 8, page 8)

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 2002 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 certain 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 major 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.

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OLA
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. Kevin Goodno, 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, 2002. 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, 2002. We emphasize that this has not been a comprehensive audit of the Department of Human Services.

The scope of our audit work at the Department of Human Services included activities that were material to the Health and Human Services and Health Care Functions within the state's basic financial statements. These activities included payments to counties for the administration of various programs, payments made through the MAXIS system for family support programs, medical program expenses, regional treatment center care and hospitalization revenue, Medical Assistance recoveries and drug rebates, child support receipts and payments, and intergovernmental grant revenues. We performed certain audit procedures on these activities as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2002, were free of material misstatement.

Table 1 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.

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.

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Table 1
Major Federal Programs
Administered by the Department of Human Services
Fiscal Year 2002 (in thousands)

Program Name	CFDA #	Federal Expenditures
Medical Assistance	93.778	$2,669,166
Food Stamps Cluster:		
Food Stamps	10.551	$ 193,777
Food Stamps Administration	10.561	$ 33,594
Temporary Aid for Needy Families (TANF)	93.558	$ 265,844
Child Support Enforcement	93.563	$ 94,567
Foster Care IV-E	93.658	$ 73,421
Social Services Block Grant (Title XX)	93.667	$ 52,897
Substance Abuse	93.959	$ 21,216

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

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2002.

Conclusions

Our December 6, 2002, report included an unqualified opinion on the State of Minnesota's basic financial statements. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 6, 2002, 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 2003, 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:

1. The Department of Human Services did not draw federal funds for all allowable MAXIS electronic benefit transfer (EBT) costs.

The department did not receive over $515,000 in federal funds for allowable federal costs. Although the department made the necessary calculations to allocate MAXIS EBT costs to the Temporary Assistance to Needy Families (TANF) program, it never requested the federal funds to reimburse the allowable federal share of those costs. As a result, the state funded these costs, even though they were eligible for federal reimbursement.

The MAXIS computer system determines eligibility for the state's public assistance programs. MAXIS costs are originally paid from state funds. The department later allocates MAXIS costs to the programs that use the system based on each program's percentage of use. Finally, the department draws federal funds to reimburse the state for the federal program share of the costs. During federal fiscal years (FFY) 2001 through 2003, the department allocated MAXIS EBT costs to TANF and reported those costs as expenditures on federal financial reports. However, the department never requested the related federal reimbursements. Since no one compared reported expenditures to federal draws, the error was not caught. The department determined that $139,057 of FFY 2001, $289,402 of FFY 2002, and $87,070 of FFY03 costs were reported as expenditures but were not drawn.

Recommendations

- *The department should work with the federal Department of Health and Human Services to determine whether it can still receive reimbursement for the MAXIS EBT costs.*

- *The department should improve its process to ensure it draws federal funds for all eligible costs.*

2. PRIOR FINDING PARTIALLY RESOLVED: The Department of Human Services did not ensure that counties timely resolved income discrepancies identified as part of the benefit eligibility process.

The department did not make sure that counties timely resolved income discrepancies identified on the Income Eligibility and Verification System, as required by federal regulations. For the Medical Assistance and Temporary Assistance for Needy Families (TANF) 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 and tax 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 individuals 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 within 45 days. The department produces follow-up reports to monitor the counties’ response time in resolving the income discrepancies.

The department has taken steps to increase the timeliness of income discrepancy resolution. These steps include issuing an instructional bulletin to the counties with suggestions for improving performance, providing training resources for county staff, discontinuing some optional matches, and following up with county financial workers who are not timely with the resolution of income discrepancies. The Income Eligibility and Verification System's Quarterly Timeliness Reports for the quarters ending March 31, June 30, and September 30, 2002, indicated that the department decreased the percentage of verifications that were overdue. However, the department continues to not meet the timeliness requirements established by the federal government. For the quarter ending September 30, 2002, 36.8 percent of the TANF-MFIP and 25.6 percent of the health care verifications were not resolved timely. By not timely resolving income discrepancies, the department is at risk of providing assistance payments to ineligible recipients.

Recommendation

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

3. PRIOR FINDING PARTIALLY RESOLVED: The Department of Human Services has not fully reconciled recipient eligibility status information between MAXIS and MMIS.

The department was unable to reconcile five months of recipient eligibility status information between the state's public assistance eligibility system (MAXIS) and the medical assistance claims processing system (MMIS). County social service office employees enter applicant information into the MAXIS system, which determines eligibility for various cash assistance programs as well as medical program benefits based on predefined criteria. Once MAXIS determines eligibility, the eligibility status is entered into the MMIS system. The department produces monthly reports to monitor the eligibility status between the two systems. County social services offices are responsible for resolving eligibility discrepancies.

For five months during fiscal year 2002, the department was unable to produce accurate discrepancy reports for distribution to counties. The problem arose after the department modified the MAXIS case status structure for the health care program in August 2001. Beginning in September 2002, the department changed the way it pulled the eligibility information and was able to produce more accurate discrepancy reports.

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 for the department to generate complete and accurate data in order to reconcile the systems and allow counties to effectively monitor recipient eligibility in a timely manner.

Recommendation

- *The department should ensure that it provides counties with accurate reports of eligibility discrepancies between the MAXIS and MMIS systems, so that counties can effectively monitor recipient eligibility status for the medical programs.*

4. The Department of Human Services did not amend its Child Support Enforcement State Plan to incorporate a federal requirement.

The department is not in compliance with a federal Child Support Enforcement Program (Title IV-D) requirement. The department has not amended its state plan for Title IV-D to incorporate federal guidelines requiring states to obtain applicant social security numbers on certain vehicle license applications. Federal regulations provide that states must enact a law requiring the collection of social security numbers for drivers license and recreational vehicle license applications. The federal Department of Health and Human Services has denied the department's request for an exemption from this provision stating that, "Minnesota has not demonstrated . . … that compliance with the requirement would not increase the efficiency and effectiveness of the State's Child Support Enforcement Program." In November 2002, the department received formal notice of the federal government's intent to disapprove Minnesota's IV-D State Plan. A federal hearing regarding the situation has been delayed until after the current legislative session to allow the state more time to pass the necessary legislation.

Recommendation

- *The department should seek a legislative change to require social security numbers on required license applications or should obtain the necessary federal waiver for the requirement.*

5. The Department of Human Services did not adequately separate duties over receipts collected by the Special Recovery Unit.

The Department of Human Services did not adequately separate duties over receipts collected by the Special Recovery Unit. The Special Recovery Unit is responsible for monitoring and collecting certain medical assistance recoveries. One unit employee handles receipts, posts receipts to the accounts receivable records, follows up on outstanding receivables, and reconciles receipts to the accounts receivable records. This lack of separation of duties increases the risk of theft and loss.

Recommendation

- *The department should separate duties to ensure that one Special Recovery Unit employee does not have access to both receipt collections and the related accounting records.*

6. The Department of Human Services incorrectly reported some expenditures on food stamp federal financial reports.

The department incorrectly reported some costs on food stamp federal financial reports, including reporting expenditures in the wrong federal fiscal year and allowing counties to claim ineligible administrative costs. A United States Department of Agriculture review of financial status reports identified three issues relating to the Department of Human Services. First, the department reported some expenditures in the wrong federal fiscal year (FFY). It erroneously reported $60,204 of FFY 2001 expenditures on FFY 2002 financial reports.

In addition, the department incorrectly allowed counties to claim excess participant costs as administrative expenses. Although the county claim form allows counties to claim excess participant costs (i.e., those exceeding the $25 maximum reimbursement rate) as administrative expenses, these costs are unallowable for federal reimbursement. Finally, due to a programming problem, the federal share of administrative costs has been slightly overstated. According to federal regulations, the federal and state cost sharing should be equal.

Recommendation

- *The department should resolve the food stamp reporting findings identified in the U.S. Department of Agriculture's review.*

7. The Department of Human Services did not comply with food stamp coupon inventory limitations.

The department maintained excessive inventories of food stamp coupons. Federal regulations specify that inventory levels should not exceed a six-month supply, taking into account coupons on hand and on order. At June 30, 2002, the department had coupons valued at $258,843 on hand. We estimated that the June 2002 inventory levels were more than ten times greater than the six-month supply allowed by the federal regulations.

Recommendation

- *The department should determine the amount of food stamp coupons needed for six months and reduce its inventory to that amount, or it should work with the federal Department of Agriculture if it feels it needs more than a six month supply of food stamp coupons.*

8. The Department of Human Services' process for identifying accounts receivable for financial reporting purposes was inadequate.

The department did not accurately determine its accounts receivable at June 30 for financial reporting purposes. The department did not recognize accounts receivable in accordance with applicable accounting principles. In the past few years, new governmental accounting principles have been issued relating to revenue and accounts receivable recognition. These new principles apply primarily to non-exchange transactions, where the state gives (or receives) value without directly receiving (or giving) equal value in return. The principles are complicated, and need to be applied on a program-by-program basis. In addition, the department did not categorize its receivables in a way to facilitate financial reporting.

First, the department only recognized accounts receivable when it sent out invoices. For example, the department annually bills a surcharge to hospitals and health maintenance organizations. The surcharge is based on the organization's revenues. The department sent out invoices to the organizations on a statutorily determined time schedule. However, the billing schedule did not correspond to when the department should recognize the accounts receivable for financial reporting purposes. Under current accounting principles, the department should recognize receivables when the underlying economic event occurs, not when the department sends the bills. As a result, the department should recognize a receivable for the surcharge at the time the organization earns the related revenue. The department may actually bill the organization for the surcharge up to 15 months later. A similar example existed with drug rebate accounts receivable. The department recognized accounts receivable only when it billed drug dispensers, not when the pharmacy dispensed the medication to clients.

Second, the department's accounts receivable reports had several inaccuracies and did not provide enough detail to allow for proper financial statement presentation. In some cases, the department did not separately list accounts receivable by amounts due to the state, the federal government, and to counties. In other cases, it did not adequately break down amounts by program or fund. In still other cases, the department did not separately identify interfund and intrafund receivables on its reports.

Finally, the department did not consistently recognize accounts receivables in the benefit recovery area. Generally, the department does not recognize a benefit recovery accounts receivable until after there has been some legal action establishing the department's claim. However, even after the department had legally established a claim, it did not always set the amount up as an accounts receivable on its books. In some cases, it never made a record of the amount until the payment arrived.

Recommendations

- *The department should work with the Department of Finance to define the financial reporting needs for accounts receivable.*

- *The department should identify and report accounts receivable for financial reporting purposes in accordance with generally accepted accounting principles.*

9. The Department of Human Services incorrectly reported some federal expenditure totals.

The department incorrectly reported some federal expenditure totals to the Department of Finance for inclusion in the state's schedule of expenditures for federal programs. We found several instances where the department did not make the same adjustments to their federal expenditure totals by program as were made for the state's basic financial statements. For example, the department provided additional information on medical program accounts payable for financial statement reporting purposes. However, the department did not include those same accounts payable amounts in their federal expenditure totals. In addition, the department did not always adjust for prior year and current year accounts payable reported to them by the Department of Finance. The Federal Schedule of Expenditure amounts by program should be on the same basis of accounting as the state's financial statements.

The department also did not adjust total Temporary Assistance to Needy Families (TANF) expenditures for amounts transferred to other programs. According to the federal regulations, the department should treat TANF transfers to the Social Services Block Grant and the Child Care and Development Block Grant as expenditures of those programs. However, the department continued to report these transfers as expenditures of the TANF program.

Recommendation

- *The department should work with the Department of Finance to ensure that the expenditure amounts it reports for its federal programs are calculated on the same basis of accounting as the state's financial statements.*

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 7, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 22, 2003

Report Signed On: March 5, 2003

Status of Prior Audit Issues
As of January 22, 2003

Prior Financial Audit Division Audit

August 15, 2002, Office of the Legislative Auditor Financial-Related Audit on Department of Human Services' MAXIS Data Integrity (Report 02-53) assessed the adequacy and effectiveness of controls that protect the integrity and confidentiality of MAXIS data. The report contained three findings. First, the department had not performed important activities to validate the continued effectiveness of MAXIS security controls. Second, many employees and contractors had inappropriate security clearances. Finally, computer programs used for scheduled batch processing were not properly controlled or secured.

March 14, 2002, Legislative Audit Report 02-15 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, 2001. 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 two findings. The department has partially resolved both of the findings. They are repeated in this report as Findings 2 and 3.

Other Legislative Audit Coverage

January 21, 2003, Office of the Legislative Auditor Program Evaluation Report on MinnesotaCare (Report 03-03) evaluated two primary research questions, which were:
1) To what extent do state and county agencies accurately determine MinnesotaCare eligibility and set premium levels? and
2) How efficiently does the Department of Human Services process MinnesotaCare cases?
The report contained several findings and recommended that the department improve the way it determines eligibility for MinnesotaCare.

Other Federal Audit Coverage

September 16, 2002, Report from the United States Department of Agriculture Midwest Regional Office reported results of a federal financial review of Minnesota's Food Stamp Program. The review focused on the verification of federal and state expenditures reported on the Financial Status Reports through second quarter, federal fiscal year (FFY) 2002. The review also looked at budget projections for FFY02, as reported on the FNS-366A, Budget Projection Statement. The report noted issues relating to financial status reports. These issues have not been resolved and are explained in Finding 6.

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.

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Minnesota Department of **Human Services**

March 4, 2003

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, 2002. 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.

Yours sincerely,

/s/ Kevin Goodno

Kevin Goodno
Commissioner

Enclosure

cc: Jeanine Leifeld
Susan Rumpca

Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2002

Audit Finding #1

The Department of Human Services did not draw federal funds for all allowable MAXIS electronic benefit transfer (EBT) costs.

Audit Recommendation #1-1

The department should work with the federal Department of Health and Human Services to determine whether it can still receive reimbursement for the MAXIS EBT costs.

Department Response #1-1

Since the department properly reported the costs in a timely manner to the federal government, there was an available grant balance to draw the federal funds. The federal funds have been drawn and deposited in the state treasury.

Audit Recommendation #1-2

The department should improve its process to ensure it draws federal funds for all eligible costs.

Department Response #1-2

We agree with the recommendation. The department has identified the problem that caused the oversight and redesigned the worksheets used to do the quarterly settlement. The EBT settlement is now incorporated in the overall quarterly settlement process.

Person Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: Completed

Audit Finding #2

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

Audit Recommendation #2

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

Department Response #2

The department agrees with the recommendation and will work with each county agency to ensure that income discrepancies are resolved timely. In addition, we will be undertaking an intensive project with Hennepin County with the goal of resolving all overdue and future income discrepancies within an appropriate time frame.

Persons Responsible: Ramona Scarpace, Director, Program Assessment and Integrity Division

Estimated Completion Date: December 31, 2003

Audit Finding #3

PRIOR FINDING PARTIALLY RESOLVED: The Department of Human Services has not fully reconciled recipient eligibility status information between MAXIS and MMIS.

Audit Recommendation #3

The department should ensure that it provides counties with accurate reports of eligibility discrepancies between the MAXIS and MMIS systems, so that counties can effectively monitor recipient eligibility status for the medical programs.

Department Response #3

The department agrees with the recommendation. We developed and implemented a reliable reconciliation report in September 2002 utilizing client eligibility information transferred from MMIS and MAXIS to the department's data warehouse. Discrepancies are reported to county workers for resolution, and department staff contact workers with high discrepancy rates to give them specific resolution instructions.

In addition, the department will implement a new step in the reconciliation process in March 2003 by automatically closing selected individuals whose discrepancy is not satisfactorily resolved. Staff will continue to monitor the process and contact county workers with high error rates.

Persons Responsible: Kate Wulf, Director, MAXIS Division
Kathleen Henry, Director, HCEA Division
Larry Woods, Director, Health Care Operations Division

Estimated Completion Date: March 31, 2003

Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2002

Audit Finding #4

The Department of Human Services did not amend its Child Support Enforcement State Plan to incorporate a federal requirement.

Audit Recommendation #4

The department should seek a legislative change to require social security numbers on required license applications or should obtain the necessary federal waiver for the requirement.

Department Response #4

The department agrees with the recommendation. The department originally believed it was in substantial compliance with the requirement because over 80% of Minnesota citizens voluntarily provide SSN information when applying for their drivers' licenses, and a valid driver's license or state I.D. card is a requirement to obtain a recreational license. The department presented that argument in the form of a waiver request and the request was ultimately rejected. Therefore, the department is proposing legislation to meet the federal requirements this year.

Persons Responsible: Wayland Campbell, Director, Child Support Enforcement Division

Estimated Completion Date: May 31, 2003

Audit Finding #5

The Department of Human Services did not adequately separate duties over receipts collected by the Special Recovery Unit.

Audit Recommendation #5

The department should separate duties to ensure that one Special Recovery Unit employee does not have access to both receipt collections and the related accounting records.

Department Response #5

The department agrees with the recommendation. The department will revise its receipting procedures to include sending a copy of the appropriate receipt registers to the controlling program area. The program area will then be able to verify amounts deposited into their accounts against the accounting records provide to them by the Special Recovery Unit.

Persons Responsible: Larry Woods, Director, Health Care Operations Division

Estimated Completion Date: June 30, 2003

Audit Finding #6

The Department of Human Services incorrectly reported some expenditures on food stamp federal financial reports.

Audit Recommendation #6

The department should resolve the food stamp reporting findings identified in the U.S. Department of Agriculture's review.

Department Response #6

The department agrees with the recommendation and has taken the following steps:

1. The department has reimbursed the 2002 USDA accounts using negative letter of credit draws. We then filed a federal back claim for the eligible costs from the 2001 USDA accounts. Lastly, we corrected the 2001 and 2002 federal cost reports.

2. The department has reimbursed the 2002 USDA account for the unallowable county administrative costs using a negative letter of credit draw. The shortfall was recovered from the state account. We also corrected the 2002 federal cost report.

3. The federal share of food stamp administrative costs is slightly overstated due to the rounding of county costs by the department's cost allocation system. Any future system enhancements will include a review of this rounding problem to determine if the cost of reprogramming would be practical compared to the benefits that would be realized.

4. The department has corrected its internal procedures to prevent future erroneous occurrences. A corrective action plan was filed on November 22, 2002 with the USDA. We are awaiting final acceptance and resolution from the federal agency.

Persons Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: June 30, 2003

Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2002

Audit Finding #7

The Department of Human Services did not comply with food stamp coupon inventory limitations.

Audit Recommendation #7

The department should determine the amount of food stamp coupons needed for six months and reduce its inventory to that amount, or it should work with the federal Department of Agriculture if it feels it needs more than a six month supply of food stamp coupons.

Department Response #7

The Department has consulted with the USDA Food and Nutrition Service (FNS) on the disposition of the excess food stamp coupons as recommended by the Office of Legislative Auditor. In a letter dated February 4, 2003, Ricardo Almendarez, Acting Regional Director of the Food Stamp Program, advised the department:

> "We understand that MDHS currently has a coupon inventory in excess of six-month (sic) based on coupon conversion projections. However, given the fact that FNS will not be printing additional coupons, and that current FNS inventory is being used for non-EBT states/localities, we are asking MDHS to maintain and use this inventory to support coupon conversion.
>
> The six-month requirement was instituted to address statewide coupon issuance, not for EBT states maintaining an inventory to support coupon conversion."

As Mr. Almendarez' letter indicates, the department's inventory of food coupons is small relative to the $16 million in Food Stamp benefits the department issues statewide each month. The inventory is used to convert the unused portion of food stamp benefits for recipients moving from Minnesota to states without an interoperable EBT system as required by federal regulations. FNS has asked the department to maintain its coupon inventory as it is not cost effective to return the supply to FNS, and the department will be unable to get any additional coupons once the inventory is depleted.

Persons Responsible: Kate Wulf, Director, MAXIS Division

Estimated Completion Date: Completed

Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2002

Audit Finding #8

The Department of Human Services' process for identifying accounts receivable for financial reporting purposes was inadequate.

Audit Recommendation #8

The department should work with the Department of Finance to define the financial reporting needs for accounts receivable.

The department should identify and report accounts receivable for financial reporting purposes in accordance with generally accepted accounting principles

Department Response #8

The department agrees with the recommendation. We will continue to work with the Department of Finance and the Office of the Legislative Auditor to modify the Department of Finance's financial reporting instructions to reflect the new government accounting principles concerning revenue and accounts receivable recognition. Also, we are modifying our Benefit Recovery procedures to recognize on a quarterly basis legally established claims as a department receivable.

Persons Responsible: Jon Darling, Director, Financial Management Division
Wayland Campbell, Director, Child Support Enforcement Division
Larry Woods, Director, Health Care Operations Division

Estimated Completion Date: June 30, 2003

Audit Finding #9

The Department of Human Services incorrectly reported some federal expenditure totals.

Audit Recommendation #9

The department should work with the Department of Finance to ensure that the expenditure amounts it reports for its federal programs are calculated on the same basis of accounting as the state's financial statements.

Department Response #9

The Department has complied with Department of Finance Single Audit worksheet instructions. Their worksheet instructions applied only to the State's accounting system (MAPS) accruals. The adjustments in this finding involve non-MAPS accruals which must be arrived at and researched directly from the department's program computer systems.

The department agrees that the accruals should be recognized in the Comprehensive Annual Financial Report (CAFR) and we have historically researched and provided the Department of Finance the information needed for the CAFR. The department was unaware of the need to make the adjustments on the Single Audit Statements.

DHS will continue to work with the Department of Finance and the Legislative Auditor to not only enhance their instructions but also to add non-MAPS accruals to the Single Audit Statements.

Persons Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: November 30, 2003