



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Human Services
State Operated Services
July 1, 2002, through December 31, 2003



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.

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

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

Representative Tim Wilkin, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Kevin Goodno, Commissioner
Minnesota Department of Human Services

We have audited selected areas of the Department of Human Services - State Operated Services for the period July 1, 2002, through December 31, 2003. Our audit scope was limited to cost of care billing and collection, payroll and other selected administrative expenditures, and the disposition of facilities. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected State Operated Services based upon our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of State Operated Services relevant to the audit objectives. We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that State Operated Services complied with financial-related legal provisions that are significant to the audit. In determining State Operated Services compliance with legal provisions, we considered requirements of laws, regulations, and contracts.

To meet the audit objectives in the areas audited, we gained an understanding of State Operated Services' financial policies and procedures. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting State Operated Services' internal controls and compliance with laws, regulations, and contracts.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: June 4, 2004

Report Signed On: September 21, 2004

Department of Human Services – State Operated 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	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Marisa Isenberg	Auditor
Susan Mady	Auditor
Patrick Ryan	Auditor
Trinh Bui	Audit Intern

Exit Conference

We discussed the results of the audit with the following staff of the Department of Human Services at an exit conference held on August 27, 2004:

Mike Tessneer	SOS Chief Executive Officer
Fran Bly	SOS Chief Operating Officer
Shirley Jacobson	SOS Chief Financial Officer
Lori Zook	SOS Accounting Director

Report Summary

Key Findings:

- State Operated Services has not resolved chemical dependency billing discrepancies resulting from incomplete or inaccurate service agreements. (Finding 1, page 8)
- State Operated Services did not adequately review and pursue its outstanding accounts receivable. As of April 30, 2004, it had \$28.4 million of receivables over one year old. (Finding 2, page 9)
- State Operated Services did not obtain all required financial information from mental health clients and did not retain some records needed to support group home billings. (Finding 3, page 10)
- State Operated Services allowed certain employees to perform incompatible duties relating to payroll and human resources. (Finding 4, page 15)

Other Conclusions:

- State Operated Services properly recorded payroll and administrative expenditures in the accounting records.
- State Operated Services complied with applicable laws and policies when selling land and buildings.

<p>This report contained a total of 4 findings related to internal control and legal compliance.</p>
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Audit Scope:

Audit Period: July 1, 2002, through December 31, 2003

Programs Audited:

- Cost of care billings for mental illness, chemical dependency, and developmentally disabled clients.
- Payroll
- Selected Administrative Expenditures:
 - Food
 - Prescription Drugs
 - Supplies
- Disposition of Facilities

Agency Background:

State Operated Services is a section within the Department of Human Services responsible for providing services for campus and community-based programs serving people with mental illness, developmental disabilities, chemical dependency, and traumatic brain injury. This unit operates regional treatment centers, a nursing home, security facilities, clinics, and group homes throughout the state.

Department of Human Services – State Operated Services

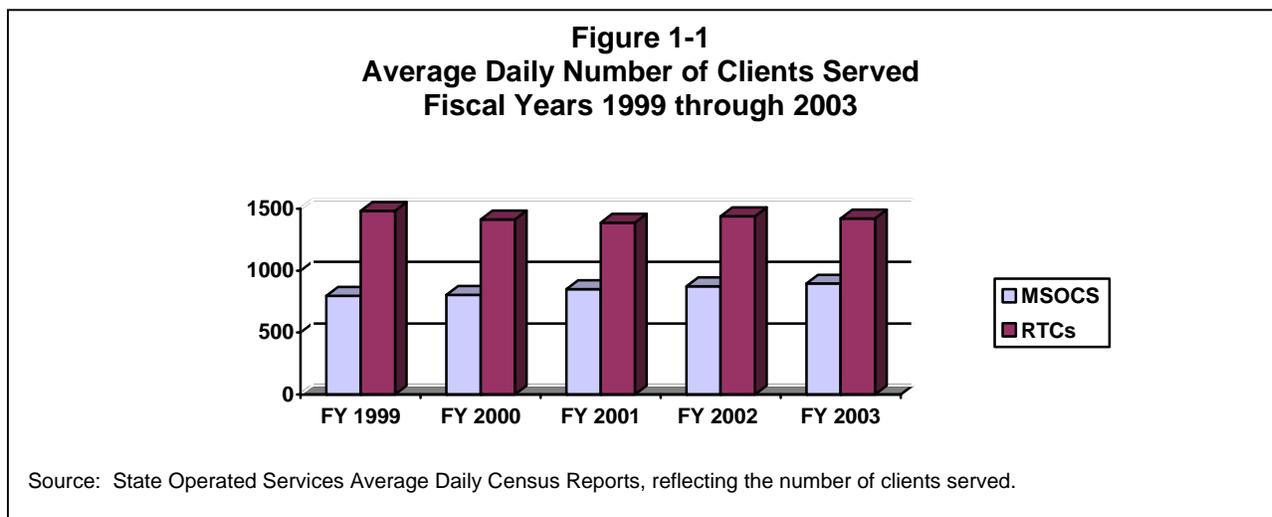
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Chapter 1. Introduction

The State Operated Services (SOS) section of Continuing Care Administration within the Minnesota Department of Human Services provides services through campus and community-based programs for people with mental illness, developmental disabilities, chemical dependency, and traumatic brain injury. In addition, SOS provides services to those individuals committed as mentally ill, sexual psychopathic personalities, and sexually dangerous persons. Mike Tessneer is the Chief Executive Officer of SOS.

SOS has been in the process of developing additional community-based programs and transitioning its clients to these services in order to place clients closer to their natural support networks. A 1974 U.S. District Court decision, frequently referred to as the Welsch decision, called for significant reductions in the population of people with developmental disabilities in the state hospital system. Under the Welsch negotiated settlement, the Department of Human Services made the commitment to restructure the regional treatment center system and move people with developmental disabilities into the community. In the late 1990s, the Legislature authorized pilot projects referred to as the adult mental health initiatives. These mental health initiatives reassigned regional treatment center staff to work in the community with county staff and other professionals to develop community-based health care services. These services helped people with mental illness avoid hospitalization and remain in their communities.

Figure 1-1 shows the average daily number of clients served at regional treatment centers (RTCs) and community-based group homes (MSOCS) over the past five years. RTC residents are characterized by shorter stays, while group homes have more long-term residents.



Department of Human Services – State Operated Services

Our audit included a review of selected financial activities of State Operated Services, focusing on cost of care billing and collection, payroll and other selected administrative expenditures, and the disposition of facilities. The following report chapters discuss our review of internal controls and compliance with significant laws and regulations for those areas.

Chapter 2. Cost of Care Billing and Collection

Chapter Conclusions

State Operated Services (SOS) did not have an adequate process for collecting outstanding cost of care accounts receivable. It did not adequately review overdue accounts receivable nor collect reimbursement from one county in a timely manner. SOS also did not establish procedures to ensure that chemical dependency billing discrepancies were resolved.

SOS controls provided reasonable assurance that billings and receipts for cost of care for mental illness, chemical dependency, and developmental disability services were correctly recorded in the accounting records. SOS controls also provided reasonable assurance that it incorporated the correct rates and census data in the cost of care billing of these clients. For the items tested, SOS complied, in all material respects, with the significant finance-related legal provisions covering the cost of care. However, we could not test some sample items because SOS failed to obtain and retain certain client information.

Cost of care is the major source of revenue for SOS. SOS is responsible for billing and collecting for client cost of care. As can be seen in Table 2-1, total billings during fiscal year 2003 amounted to almost \$285 million. Of that total, cost of care for mentally ill clients represented the largest category, with about \$175 million billed during the fiscal year.

Audit Objective

The primary objective of our audit of cost of care billings and collections was to answer the following questions:

- Did SOS controls provide reasonable assurance that billings and receipts were properly entered into the accounting records?
- Did SOS controls provide reasonable assurance that rates and census data were accurately incorporated into the billings of clients for cost of care?
- For the items tested, did SOS comply, in all material respects, with significant finance-related legal provisions covering the billing of cost of care?
- Did SOS have an adequate process for collecting outstanding accounts receivable?

Department of Human Services – State Operated Services

We limited our testing to mentally ill, developmentally disabled, and chemically dependent client cost of care billing and collection.

Background

State Operated Services is responsible for providing services for campus and community-based programs serving people with mental illness, developmental disabilities, chemical dependency, and traumatic brain injury. Table 2-1 provides a list of the cost of care services SOS bills. State Operated Services has centralized its billing and administrative functions. At one time, each regional treatment center operated its own business office and was responsible for the billing of its own clients. With the centralization of administrative services, the St. Peter Regional Treatment Center's billing office became responsible for all adult mental health billings. Brainerd Regional Treatment Center's billing office is responsible for billing chemical dependency services. The Roseville office bills developmentally disabled (group home) services.

Table 2-1
State Operated Services
Types of Cost of Care Billings

Cost of Care Services	Fiscal Year 2003 Total Billings
Adult Mental Health (Mentally Ill)	\$174,711,000
Developmentally Disabled	57,271,000
Chemically Dependent	21,612,000
Child and Adult Behavior	13,239,000
Traumatic Brain Injury	3,632,000
Developmentally Disabled - ICF/MR	8,041,000
Developmentally Disabled Community Support Services	4,713,000
Clinics	1,488,000

Source: State Operated Services fiscal year 2003 budget records.

Clients admitted to a regional treatment center or group home go through an intake process similar to a hospital patient. All demographic and health history information should be obtained upon admission, along with any financial considerations for billing of cost of care and other services. Intake information is entered into the State Operated Services Health Information Management System and the Billing Healthcare Information System. Most clients are placed in a facility by the county, a family member, or through court order commitment.

Upon admission, the treatment facility must obtain an authorization form stating who is financially responsible for the client. Financially responsible parties can include client self-pay, private insurance companies, counties, Medicaid/Medicare, Prepaid Minnesota Care, Prepaid Medical Assistance Program, or the state's Consolidated Chemical Dependency Treatment Fund. On a monthly basis, State Operated Services bills the financially responsible party for the client's cost of care. SOS posts the cost of care payments received to individual client records in the Billing Healthcare Information System. The system also prepares an aged accounts receivable report for review by SOS management.

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Adult Mental Health Services

State Operated Services provides adult mental health (mental illness) services at several regional treatment centers located throughout the state. General Fund appropriations finance these services. However, the appropriations are partially offset by the collection of cost of care revenues from clients and other financially responsible parties. The department calculates the cost of care rates annually. The calculation is based on all direct and indirect costs for operating the treatment centers. The cost of care rate is then translated into a daily per diem charge. Table 2-2 shows the per diem rates for Adult Mental Health by facility for fiscal years 2003 and 2004.

Table 2-2
Adult Mental Health Per Diem Rates
Fiscal Years 2003 and 2004

Facility	2003	2004
Anoka Metro	\$401	\$446
Anoka Transition	N/A	160
Brainerd	518	531
Eveleth (Northern Service Center)	431	468
Fergus Falls	634	687
MN Sex Offender Program (Moose Lake and St. Peter)	310	314
Security Hospital (St. Peter)	458	443
Forensic Transition (St. Peter)	N/A	279
Southern Mental Health (St. Peter and Willmar)	539	695

Source: Minnesota Department of Human Services' State Operated Services information.

Developmentally Disabled Services

Minnesota State Operated Community Services Support (MSOCS) provides residential and vocational support services for people with developmental and other disabilities. SOS operates approximately 90 group residential homes throughout the state. Most group homes, except for those in the Twin City metro area, are affiliated with a regional treatment center.

Staff at each residential group home complete a daily midnight census. This process determines the client's number of days for billing purposes. Each residential group home has different room and board rates; however, all clients within an individual group residential home are billed the same rate. During fiscal year 2003, group home room and board rates ranged from \$687 to \$1,106 per month.

The SOS Roseville office sends out bills either once or twice a month, depending on the client's service agreement. Many developmentally disabled clients are eligible for medical assistance, which pays the client's room and board and supported living skills, depending on the client's needs. Some clients' guardians receive payments from Social Security or Supplemental Security Insurance that are included in the funding for the client's room and board.

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Chemical Dependency Services

Some regional treatment centers provide chemical dependency and detox services. Counties determine client eligibility and, through service agreements, contract with SOS to provide the services. The service agreement should state the client name, the rates and type of services to be provided, and the maximum number of days allowed at the facility. The service agreement is normally established prior to admission of the client. Each host county determines its own rate for chemical dependency services.

Brainerd Regional Treatment Center provides the billing function for chemical dependency services. Except for detox clients, billings for chemical dependency are based upon the service agreement with a host county, American Indian reservation, or prepaid health plan. In order to receive reimbursement, these agreements must be complete and accurate. The state's Consolidated Chemical Dependency Treatment Fund provides for fee-for-service payments for medical assistance and general assistance medical care recipients. Other sources of payment include individuals and private insurance.

Our audit identified three issues relating to State Operated Services cost of care billing and collection process.

1. State Operated Services has not resolved chemical dependency billing discrepancies.

SOS did not ensure that all chemical dependency service agreements were complete and accurate. It has not developed adequate procedures to resolve discrepancies in service agreements that prevent timely billing and collection for chemical dependency services. The counties are responsible for preparing the service agreements and providing them to SOS. They also are responsible for revising the agreements for any subsequent changes, such as changes in types of service or length of stay under their contractual obligation as the gatekeeper for state chemical dependency funds.

SOS had a significant number of incomplete or inaccurate chemical dependency billings because of missing or incorrect service agreements, such as incorrect rates or dates of service. These incorrect or missing service agreements prevented timely billing and collection for chemical dependency services and resulted in the write-off of approximately \$822,000 of chemical dependency receivables in September 2003 alone. Outstanding accounts for chemical dependency cost of care services billed to private insurance have shown similar problems. Many of these unpaid accounts are over a year old and some date back to 1999.

Recommendation

- *SOS should work with the counties to improve its billing process, including the process for revising service agreements, so that chemical dependency cost of care billings can be collected.*

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2. State Operated Services did not adequately monitor or resolve outstanding accounts receivable balances.

State Operated Services has not appropriately reviewed and pursued its large accounts receivable balances. It is currently in the process of reviewing accounts exceeding 365 days old that were billed to private insurance. There is no specific review of balances under 365 days old or those billed to other guarantors. Table 2-3 provides an aged list of the overdue amounts as of April 30, 2004.

Table 2-3
Outstanding SOS Accounts Receivable Balances
As of April 30, 2004 (in millions)

	DAYS PAST DUE							TOTAL
	0 days	30 days	60 days	90 days	120 days	180 days	365+ days	
Balance	\$24.3	\$3.8	\$2.9	\$1.9	\$3.6	\$7.7	\$28.4	\$72.6

Source: SOS Aged Accounts Receivable Report as of April 30, 2004.

The state Department of Finance requires state agencies to establish and maintain a receivable management plan as a tool to “assist in the effective, efficient, and aggressive collection and management of accounts receivable.” The same policy also suggests internal collection steps, such as mailing a delinquent invoice, issuing additional invoices, or contacting the debtor by phone. The specific procedures depend on the number of days the accounts are past due.

SOS has not followed the Department of Finance’s suggested series of steps to attempt to collect its outstanding cost of care receivables. SOS has not submitted any outstanding accounts receivable to the Department of Revenue. Minn. Stat. Section 16D.04 requires state agencies to submit any outstanding accounts receivable over 121 days past due to the Department of Revenue. In 1998, DHS submitted to Finance a request for a waiver from this statutory requirement. However, DHS and Finance could not provide us with documentation indicating Finance had ever approved the waiver.

A detailed review of the aged accounts receivable report shows that SOS has not resolved several other issues related to accounts receivable, including:

- The system shows credit balances totaling approximately \$1.7 million over one year old. SOS should investigate and resolve these balances.
- Hennepin County only reimburses SOS once a year for its share of the cost of care for mental illness clients. Hennepin County’s last payment totaled \$3,579,000 and was received in March 2004 representing cost of care for the months December 2002 through November 2003. The check was written on December 31, 2003, but not issued to SOS until March 2004. SOS bills all counties monthly for mental illness services.

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- A total of \$5.4 million of the accounts receivable balance over one year old are coded as medical assistance billings. Since federal regulation require providers to submit all medical assistance claims within one year of the date of service, SOS may not be able to receive reimbursement for certain medical costs it incurred.

Recommendations

- *SOS should work with the Department of Human Services' central accounts receivable unit to develop a SOS specific management plan for its overdue accounts. It should follow a systematic series of steps in its collection attempts and should refer outstanding accounts receivable to the Department of Revenue, as appropriate.*
- *SOS should review and resolve any remaining accounts receivable balances related to the Billing Healthcare Information System conversion and its outstanding overpayment balances.*
- *SOS should pursue a more timely collection of cost of care reimbursement from Hennepin County.*

3. State Operated Services did not obtain and retain all financial and census information relating to certain clients.

SOS did not obtain all financial information required for the admission of adult mental health clients and did not retain some census records for developmentally disabled group home clients.

SOS did not consistently obtain client financial information and the authorization and assignment of health insurance and Medicare benefits. Minn. Stat. Section 246.51, Subd. 1 requires the department to determine how much of the cost of care a client is able to pay. The department developed a "Patient Financial Information" form to record a client's financial information, such as insurance policies, income, expenses, assets, and liabilities. This information is then used to determine the amount of cost of care charges for which the client will be liable. The department also requires that clients sign a form authorizing the payment of health care insurance and Medicare payments to the department for services provided to the client. Our testing showed that 8 out of 20 sample items did not have client financial information on file, and 5 of 20 sample items did not have the statement to permit payment of Medicare benefits on file. The client financial files did not contain any documentation indicating the client had refused the facility's request to complete the required forms. SOS needs to maintain these documents to support the billings for the cost of care for mental illness clients. Without obtaining this documentation, the department may not be maximizing the collection of cost of care revenues.

SOS also did not maintain some census data for developmentally disabled clients living in SOS community-based group homes. SOS could not locate census information for 4 of 20 billings tested. Additionally, one client had a blank census record. The census is used in calculating the billing amount. Without complete census information, we could not verify the accuracy of the

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billings for these five clients. The SOS record retention schedule shows that these records should be retained permanently.

Recommendations

- *SOS should ensure that client financial information and health insurance and Medicare authorizations are collected and documented in the client's financial file.*
- *SOS should retain all client census records.*

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Chapter 3. Payroll and Other Selected Administrative Expenditures

Chapter Conclusions

SOS controls provided reasonable assurance that selected administrative expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization. For the items tested, SOS complied, in all material respects, with the significant finance-related legal provisions concerning payroll and administrative expenditures. However, we found that SOS did not have adequate separation of duties between its payroll and personnel functions at the regional treatment centers.

The recent changes in its delivery systems resulted in SOS streamlining its administrative structure. It eliminated positions unrelated to direct patient care and consolidated nine regional treatment center chief executive officer and medical director positions to two regional administrator positions and three medical director positions. Over 130 full-time positions were eliminated in fiscal year 2002, and an additional 90 positions eliminated in fiscal year 2003. Despite this, payroll continues to be the largest SOS administrative expenditure category, totaling approximately \$243 million in fiscal year 2003 and representing about 83 percent of SOS total annual expenditures. The remaining SOS administrative expenditures were for items such as services, supplies, and equipment.

Audit Objectives

Our audit of expenditures focused on the following questions:

- Did SOS internal controls provide reasonable assurance that administrative expenditures and payroll expenditures were accurately reported in the accounting records and in compliance with applicable legal provisions and management's authorization?
- For the items tested, did the SOS comply, in all material respects, with the significant finance-related legal provisions concerning payroll and selected administrative expenditures?

We reviewed internal controls over payroll at the SOS central office and at Anoka-Metro, Brainerd, and St. Peter regional treatment centers. We audited selected administrative expenditures, including food, prescription drugs, and supplies, representing approximately 36 percent of nonpayroll administrative expenditures in fiscal year 2003. These three expenditure items totaled approximately \$17.5 million in fiscal year 2003.

Department of Human Services – State Operated Services

Background

Payroll

State Operated Services employed 4,875 staff as of December 31, 2003. Table 3-1 shows the number of employees by facility.

Table 3-1
Number of Employees by Facility
December 31, 2003

<u>Facility</u>	<u>Number of Employees</u>
SOS support division	40
Anoka-Metro Regional Treatment Center	606
Brainerd Regional Treatment Center	654
St. Peter Regional Treatment Center	837
MSOCS – South Metro	811
Ah-Gwah-Ching Center	190
Cambridge Regional Treatment Center	257
Fergus Falls Regional Treatment Center	432
Duluth-Northern Network East	291
Moose Lake	237
Willmar Regional Treatment Center	<u>520</u>
Total	4,875

Source: State Operated Services Personnel Report.

State Operated Services uses SEMA4, the state's payroll processing system, to record the time employees charge to its programs. Human resources employees at each regional treatment center are responsible for processing payroll for facility employees and employees at their related group homes. They complete the mass entry of timesheets and review employee hours and leave charged to the individual programs. The same employees are also responsible for processing human resources transactions, such as establishing new staff and leave records and inputting compensation increases and other human resources entries.

Administrative Expenditures

SOS purchases drugs, food, and other supplies either through the state's procurement system or with state purchasing cards. SOS employees who use purchasing cards are required to go through an extensive training program after which they sign an agreement identifying employee responsibilities. Purchasing cards are mostly used for purchases of food and supplies. SOS internal controls require approval of the purchases and require reconciliation of expenditures to receipts on a monthly basis. In addition, the Department of Human Services' internal auditors review purchasing card expenditures on a routine basis.

SOS uses the state's procurement process for its remaining purchases. Employees use the electronic Inter Office Requisition System for purchasing, which provides electronic requisitions and approval of the purchases. The Roseville office is responsible for procurement for all of

Department of Human Services – State Operated Services

State Operated Services. Anoka-Metro Regional Treatment Center is responsible for vendor payments.

Our audit of payroll and selected administrative expenditures identified one issue relating to payroll.

4. State Operated Services did not establish an adequate separation of duties over its payroll and human resources functions.

SOS did not adequately separate its human resources and payroll functions at the regional treatment centers. SOS assigned human resources employees at these facilities incompatible duties relating to payroll and human resources. For example, human resources employees were responsible for both the mass entry of timesheets and also for human resources functions, such as establishing new employees, recording position and employee data changes, and making salary and leave balance adjustments. Employees had the ability to input or change payroll or human resources data on SEMA4 without detection. Several staff also had access to SEMA4 screens relating to other facilities. By not separating the human resources and payroll functions, SOS increases the risk that errors or irregularities could occur and not be detected.

Recommendation

- *SOS should segregate staff responsibility between the payroll and human resources functions. SOS should also limit employee access in SEMA4 to those screens necessary to complete their job responsibilities.*

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Chapter 4. Disposition of Facilities

Chapter Conclusions

State Operated Services complied with applicable policies regarding its sale of land and buildings. It also correctly recorded the sales in the state’s accounting system.

State Operated Services facilities include regional treatment centers in Anoka (Metro), Brainerd, Fergus Falls, St. Peter, and Willmar. It operates the state nursing home in Walker, community support services, and a number of state operated community-based group homes. SOS forensic services serve the entire state and include the Minnesota Security Hospital in St. Peter, the Minnesota Sex Offender Program in Moose Lake and St. Peter, and the Minnesota Extended Treatment Options Program in Cambridge. SOS also administers the Health Source Clinic in Cambridge and the Southern Cities Clinic in Faribault.

Audit Objective

Our audit of disposition of facilities focused on the following objective:

- Did SOS dispose of buildings and equipment in compliance with statewide policies?

As SOS transferred residents to community-based homes, SOS focused its efforts on reducing costs associated with General Fund appropriated services, including the reduction or elimination of buildings and land. Changes to the SOS facilities in fiscal years 2003-2004 are shown in the table below.

**Table 4-1
State Operated Services Land and Building Sales
Fiscal Years 2003 and 2004**

Facility	Number of Buildings	Number of Acres	Purchaser	Price
MN Extended Treatment Option	8	88	City of Cambridge	\$634,200
Brainerd Regional Treatment Center	0	63.62	City of Brainerd	\$680,800
Fergus Falls Regional Treatment Center	2	8	MN Vets Home Bd.	\$ 0 ⁽¹⁾
Minnesota State Operated Community Services Support	0	1 City Lot	Private Party	\$ 65,185 ⁽²⁾

- (1) The Fergus Falls Regional Treatment Center transferred buildings and land to the Minnesota Veterans Home Board.
 (2) SOS sold a city lot to a private party.

Source: State Operated Services’ internal list of land and building sales FY03/FY04.

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As a result of legislation passed in the 2003 session, in the future, the commissioner of Human Services will be required to seek specific legislative authorization before closing any regional treatment center or state-operated nursing home or any program at a regional treatment center or state-operated nursing home. SOS is currently in the planning process for transitioning the adult mental health services from Willmar, Fergus Falls, and Ah-Gwah-Ching to community-based settings.

**Status of Prior Audit Issues
As of June 16, 2004**

Most Recent Audits

March 18, 2004, Legislative Audit Management Letter (Report 04-11), 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, 2003. The scope included administration of the Medical Assistance and other health care programs, various income maintenance programs, and other federal programs. The report contained eight findings, none of which related to State Operated Services.

February 18, 2004, Program Evaluation Report on Medicaid Home and Community-Based Waiver Programs for Persons with Mental Retardation or Related Conditions (Report 04-03) addressed the following questions:

- 1) How much does Minnesota spend on the Medicaid Home and Community-Based Waiver Programs? What factors drive spending?
- 2) How well does Minnesota’s system for allocating MR/RC Waiver program resources to counties work?
- 3) Does the state have sufficient controls to ensure that funds are spent appropriately for the component of the MR/RC Waiver Program known as Consumer-Directed Community Supports?

The report contained several findings and recommended that the department modify its method of allocating MR/RC Waiver funds, set additional controls to ensure appropriate spending of funds, and evaluate county compliance with state rules.

Other Audit Coverage

November 16, 2001, Department of Human Services Internal Audit of Eastern Minnesota State Operated Community Services (EMSOCS) Purchase Card Operations (Report 01-007-N) addressed the policies, procedures, operations, purchases, and administrative controls over the use of purchase cards. This report contained 16 findings and recommendations relating to the use of purchase cards.

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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September 21, 2004

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 Department's State Operated Services conducted by your office for the eighteen month period ended December 31, 2003. 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/ Kevin Goodno

Kevin Goodno
Commissioner

Enclosure

cc: Jeanine Leifeld
Jack Hirschfeld

**Department of Human Services
Response to the Legislative Audit Report
On State Operated Services**

Audit Finding #1

State Operated Services has not resolved chemical dependency billing discrepancies.

Audit Recommendation #1

SOS should work with the counties to improve its billing process, including the process for revising service agreements, so that chemical dependency cost of care billings can be collected.

Department Response #1

The department agrees with the recommendation. SOS is required to accept court-committed clients regardless of the status of their service agreement. One of the procedures that SOS will implement is to bill the counties directly and fully for services provided to the court-committed clients when it becomes evident that a service agreement is not available. We will also continue to work with the counties to communicate required revisions to the service agreements.

While private insurances have no service agreements, there is a pre-certification process that is required. We have formulated procedures to make sure that these pre-certifications are performed and the services are then covered by the private insurance companies.

Person Responsible: Shirley Jacobson, Chief Financial Officer

Estimated Completion Date: February 28, 2005

Audit Finding #2

State Operated Services did not adequately monitor or resolve outstanding accounts receivable balances.

Audit Recommendation #2-1 and #2-2

- *SOS should work with the Department of Human Services' central accounts receivable unit to develop a SOS specific management plan for its overdue accounts. It should follow a systematic series of steps in its collection attempts and should refer outstanding accounts receivable to the Department of Revenue, as appropriate.*
- *SOS should review and resolve any remaining accounts receivable balances related to the Billing Healthcare Information System conversion and its outstanding overpayment balances.*

**Department of Human Services
Response to the Legislative Audit Report
On State Operated Services**

Department Response #2-1 and #2-2

SOS has procedures in place to review the accounts receivable by program and payer on a monthly basis. Detail reviews are performed by the billing offices by program and issues are resolved. The more current balances are given priority as the ability to collect is higher, but there is continual work being performed on the aging balances. The following table shows the results of that analysis.

Outstanding SOS Accounts Receivable Balances
As of July 31, 2004 (in millions)

DAYS PAST DUE

	0 Days	30 Days	60 Days	90 Days	120 Days	180 Days	365+ Days	Total
Balance	\$25.5	\$5.8	\$4.1	\$1.9	\$3.3	\$6.2	\$16.7	\$63.5

In the Legislative Auditor's report, \$5.4 million of the accounts receivable balance over one year old represented unresolved medical assistance billings as of April 30, 2004. This balance has been reduced to \$3.9 million as of 7/31/2004. Of this remaining balance, approximately \$1.4 million is in appropriated programs and will be deferred as patient pay, as it was determined that these were never medical assistance payments due to clients age or benefit package. The remaining balances are in enterprise programs and are being reviewed. In some instances the amounts are still collectible as they result from denials from private insurance companies.

In 1998, SOS submitted a request for waiver from the collection policy established by the Department of Finance, as the timeframes indicated by that policy are too short for third-party accounts receivable. We will update that request and retain documentation of the status.

Additionally, the credit balances of \$1.7 million for the child and adolescent program have been resolved and procedures established for accounting for similar situations in the future.

Person Responsible: Shirley Jacobson, Chief Financial Officer

Estimated Completion Date: February 28, 2005

Audit Recommendation #2-3

SOS should pursue a more timely collection of cost of care reimbursement from Hennepin County.

**Department of Human Services
Response to the Legislative Audit Report
On State Operated Services**

Department Response #2-3

SOS does bill the counties monthly for poor relief services. Hennepin County chooses to pay once a year, but does pay in full. We will continue discussions with Hennepin County regarding more timely payment but have been told by Hennepin County that their systems cannot comply with this request.

Person Responsible: Shirley Jacobson, Chief Financial Officer

Estimated Completion Date: Completed

Audit Finding #3

State Operated Services did not obtain and retain all financial and census information relating to certain clients.

Audit Recommendation #3-1

SOS should ensure that client financial information and health insurance and Medicare authorizations are collected and documented in the client's financial file.

Department Response #3-1

The department agrees with the recommendation. Minnesota Statute Section 246.51, Subd. 1 requires the department to determine how much of the cost of care a client is able to pay. We do ask that the patient or responsible party complete a "Patient Financial Information" form to record their financial information. We have upgraded our procedures to include documentation of a refusal to complete the forms.

Person Responsible: Shirley Jacobson, Chief Financial Officer

Estimated Completion Date: Completed

Audit Recommendation #3-2

SOS should retain all client census records.

Department Response #3-2

The department agrees with the recommendation. We have reviewed the procedure for maintaining census data for developmentally disabled clients and have implemented back-up systems to ensure electronic data remains available should primary systems fail.

**Department of Human Services
Response to the Legislative Audit Report
On State Operated Services**

Person Responsible: Shirley Jacobson, Chief Financial Officer

Estimated Completion Date: Completed

Audit Finding #4

State Operated Services did not establish an adequate separation of duties over its payroll and human resources functions.

Audit Recommendation #4

SOS should segregate staff responsibility between the payroll and human resources functions. SOS should also limit employee access in SEMA4 to those screens necessary to complete their job responsibilities.

Department Response #4

Although the department agrees with the recommendation, the human resources and payroll functions for State Operated Services are decentralized processes consisting of small offices throughout the State. These offices provide both the human resource and payroll function for multiple sites in their region. As with other support services, SOS has been reviewing the roles and responsibilities of the staff and offices to determine the most appropriate and cost effective way to provide this service. Without an electronic timesheet, to meet payroll input dates it is necessary for all human resource staff to have the ability to complete the manual data input. The Statewide electronic payroll timesheet anticipated for rollout during fiscal year 2005 should reduce the number of individuals required for input and allow for more defined separation of duties among the staff.

Person Responsible: Fran Bly, Chief Operating Officer

Estimated Completion Date: June 30, 2005