



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Human Services
Fiscal Year Ended June 30, 2004



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 forty 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.

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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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, 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
Susan Kachelmeyer, CPA, CISA	Team Leader
Ching-Huei Chen, CPA	Auditor
George Deden, CPA	Auditor
Marisa Isenberg	Auditor
Susan Mady	Auditor
Patrick Phillips, CPA	Auditor
Pat Ryan	Auditor
Alan Sasse, CPA	Auditor
April Snyder	Auditor
Gail Berggren	Audit Intern
Timothy Rekow	Audit Intern
Titima To	Audit Intern

Exit Conference

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

Chuck Johnson	Assistant Commissioner, Children and Family Services
Phil Ohman	Accounting Director
David Ehrhardt	Internal Audit Director
Marty Cammack	Financial Management Director
Wayland Campbell	Child Support Enforcement Division
Kathleen Henry	Health Care Eligibility and Access Division

Department of Human Services

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Report Summary

Key Audit Findings – Department of Human Services:

- The department did not document salaries charged to some federal programs. (Finding 1, page 4)
- The department did not comply with federal cash management requirements when it made cash advances to subrecipients in one program. (Finding 2, page 6)
- The department overpaid some Consolidated Chemical Dependency Treatment Fund providers. As of October 2004, it had identified about \$253,000 of overpayments. (Finding 3, page 7)
- The department did not adequately document certain eligibility criteria for some participants in the federal State Children's Health Insurance Program. (Finding 5, page 8)

Key Audit Finding – Selected County Human Services Offices:

- The counties did not adequately monitor high-risk eligibility override transactions (Anoka, Dakota, Hennepin, Ramsey, and Saint Louis counties).

Audit Scope:

- Programs material to the State of Minnesota's fiscal year 2004 financial statements.
- Internal control and compliance over twelve federally funded programs.
- Testing of recipient eligibility at selected county human services offices.

Background:

The Department of Human Services is responsible for administering the state's public assistance programs, including Medical Assistance, Temporary Assistance for Needy Families, and Food Stamps. It also manages many other social services programs, including substance abuse, foster care, child care, and child support enforcement. Its annual expenditures exceed \$8 billion. County human service offices determine eligibility for the state's public assistance programs.

The audit report contained six audit findings addressed to the Department of Human Services relating to internal control and legal compliance. One finding was repeated from the prior report. The report also contained a total of nine audit findings addressed to five county human services offices.

Department of Human Services

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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 basic financial statements of the State of Minnesota as of and for the year ended June 30, 2004. We have also reviewed the department's procedures related to the state's compliance with certain requirements described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement* that were applicable to the department for the year ended June 30, 2004. 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 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, and Medical Assistance drug rebates. 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, 2004, 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. In order to conclude on recipient eligibility for the Medical Assistance, Temporary Assistance for Needy Families, and federal Food Stamp programs, we performed certain limited audit procedures at selected county human services offices. The *Circular A-133 Compliance Supplement* requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. We have attached the county management letters to this report.

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

Department of Human Services

Table 1
Major Federal Programs
Administered by the Department of Human Services
Fiscal Year 2004 (in thousands)

<u>Program Name</u>	<u>CFDA #</u>	<u>Federal Expenditures</u>
Food Stamp Cluster:		
Food Stamps	10.551	\$ 242,274
Food Stamp Administration	10.561	\$ 37,262
Temporary Assistance for Needy Families	93.558	\$ 216,536
Substance Abuse Prevention and Treatment		
Block Grant	93.959	\$ 20,788
Child Support Enforcement	93.563	\$ 101,861
Child Care Cluster:		
Child Care and Development Block Grant	93.575	\$ 41,497
Child Care Mandatory and Matching Fund	93.596	\$ 44,441
Foster Care - Title IV-E	93.658	\$ 64,761
Social Services Block Grant	93.667	\$ 33,223
State Children's Health Insurance Program	93.767	\$ 85,677
Medical Assistance Cluster:		
Medical Assistance	93.778	\$2,979,915
State Health Care Providers' Survey	93.777	\$ 4,777

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 2004.

Conclusions

Our November 19, 2004, report included an unqualified opinion on the State of Minnesota's basic financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2004. In accordance with *Government Auditing Standards*, we also issued our report, dated November 19, 2004, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. In March 2005, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with the U.S. Office of Management and Budget's 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.

Findings and Recommendations

1. PRIOR FINDING PARTIALLY RESOLVED: The Department of Human Services did not comply with federal regulations when documenting salaries charged to some federal programs.

In several ways, the department did not comply with federal regulations when allocating salary costs to federal programs. The department did not adjust estimated salary amounts to actual

Department of Human Services

payroll costs incurred. The department also did not obtain the required certifications from employees working on only one federal program. Finally, the department did not allocate mailroom employee salaries consistently. Table 2 lists the programs subject to the federal cost requirements.

Table 2
Major Federal Programs at the Department of Human Services
Applicability of the OMB Cost Principles Circular Requirements

Food Stamps ⁽³⁾	CFDA 10.551
Food Stamp Administration	CFDA 10.561
Temporary Assistance to Needy Families	CFDA 93.558
Substance Abuse Prevention and Treatment Block Grant ⁽²⁾	CFDA 93.959
Child Support Enforcement ⁽¹⁾	CFDA 93.563
Foster Care – Title IV-E	CFDA 93.658
Child Care and Development Block Grant	CFDA 93.575
Child Care Mandatory and Matching Funds ⁽³⁾	CFDA 93.596
Social Services Block Grant ⁽²⁾	CFDA 93.667
State Health Care Providers' Survey ⁽³⁾	CFDA 93.777
Medical Assistance ⁽¹⁾	CFDA 93.778
State Children's Health Insurance Program ⁽¹⁾	CFDA 93.767

Note 1: These programs are charged payroll costs through the cost allocation plan only.

Note 2: Although these programs are exempt from the OMB cost principle requirements, the department has decided to use the federal cost principles as its standard for the programs instead of developing state cost principles.

Note 3: The department does not charge any payroll costs to this federal program.

Source: Auditor prepared.

First, as noted in the prior audit report, the department charged estimated salary costs to certain federal programs. However, it never compared the employees' actual activities to the estimates to confirm whether its original allocations were accurate or required adjustment. U.S. Office of Management and Budget's *Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*, identifies standards for time distribution and payroll documentation. Circular A-87 requires "where employees work on multiple activities . . . a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation." "[This documentation] must reflect an after-the-fact distribution of the actual activity of each employee. They must account for the total activity for which each employee is compensated." Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal programs.

In addition, the department did not obtain periodic certifications from employees being charged solely to a single federal program. Circular A-87 requires the department to support salary charges by periodic certifications "that the employees worked solely on that program for the period covered by the certification." We believe this requirement also applies to programs such as Child Support Enforcement (CFDA 93.563). Although the department includes salaries for that program in their cost allocation plan, the salaries are ultimately totally charged to a single federal program, Child Support Enforcement. The salaries should therefore be subject to the same periodic certification process.

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The department developed procedures during fiscal year 2004 to comply with these regulations. It is in the process of implementing the new procedures.

Finally, the department did not consistently treat mailroom employees' salaries. The department included one mailroom employee's salary directly in the Child Support Enforcement cost pool, but it included all other mailroom employees' salaries in the Management Services cost pool. As a result, the Child Support Enforcement Program (CFDA 93.563) paid a larger share of the costs than other federal and state accounts. Circular A-87 specifies that the actual method of allocating costs "should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived." The department made the necessary changes after we notified them of this error.

Recommendations

- *The department should provide the appropriate documentation to support its distribution of employee salaries to federal programs in accordance with OMB Circular A-87.*
- *The department should consistently treat similar costs so that any cost allocation produces an equitable distribution.*

2. The Department of Human Services did not comply with federal cash management requirements for the Child Care and Development Block Grant Program.

The department did not comply with federal cash management requirements for the Child Care and Development Block Grant Program (CFDA 93.575). The department did not comply with federal requirements when it paid advances to certain subrecipients. During our testing of five sample contracts, we noted seven instances where the department paid subrecipients before they incurred the related expenditures. The advances ranged from \$73,000 to over \$478,000 and covered a six-month period. Federal regulations require the state to minimize the time between the transfer of federal money and its use. Paying subrecipients in advance for six months of expenditures does not comply with these requirements.

Recommendation

- *The department should comply with federal cash management provisions by ensuring that subrecipients minimize the time between the transfer of federal money and its use.*

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3. The Department of Human Services overpaid some Consolidated Chemical Dependency Treatment Fund providers.

In some instances, the department overpaid Consolidated Chemical Dependency Treatment Fund (CCDTF) providers. Between 2001 and 2004, the department allowed some providers to charge the fund for both the date of admittance and the date of discharge as part of the client's service agreement. According to department policy, providers can bill for the date of admittance, but not for the date of discharge. The overpayments occurred because the department provided inconsistent guidance through a provider update it distributed. As of October 2004, the department had identified about \$253,000 of overpayments. The department has since continued to review additional provider bills. Because the Consolidated Chemical Dependency Treatment Fund is a mixture of federal and state funds, some of these overpayments may result in questioned costs for the federal Substance Abuse Prevention and Treatment Block Grant (CFDA 93.959).

Recommendations

- *The department should use Consolidated Chemical Dependency Treatment Funds (CCDTF) only for allowable costs.*
- *The department should continue to review CCDTF provider billings to determine if it paid for the date of discharge, and should seek repayment for any overpayments.*

4. The Department of Human Services did not ensure that reporting for certain federal programs was timely and accurate.

The department has not maintained sufficient internal controls to ensure the accuracy and timeliness of its Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64) Reports. These reports show certain federal grant activity, including awards and expenditures for the State Children's Insurance Program, the State Survey and Certification of Health Care Providers and Suppliers, and the Medical Assistance Program (CFDA numbers 93.767, 93.777 and 93.778, respectively). The department did not verify the accuracy of certain information included on the report and did not submit the report by the required deadline. We noted the following specific issues related to the CMS-64 report:

- The department did not timely reconcile federal program activity recorded on the Medical Management Information System (MMIS II) and the state's accounting system (MAPS). The department used information from MMIS to complete the CMS-64. As of October 28, 2004, the department had not fully reconciled the two systems' activity for April, May, and June 2004. The differences ranged from \$312,000 to (\$361,000). The net amount of the unreconciled difference for the three-month period was about \$15,000. The department should fully and timely reconcile its systems in preparation for including the information on its federal reports.

Department of Human Services

- The department did not submit the CMS-64 Reports within 30 days after the end of the quarter, as required by federal regulation. We tested the four quarters of fiscal year 2004 and the first quarter fiscal year 2005 reports and found that the department electronically filed the reports from 4 to 68 days late. We noted similar delays during prior audits.
- The department used an incorrect award amount on one CMS-64 Report. It did not report approximately \$443 million in federal Medical Assistance program awards and approximately \$12.3 million in related administrative awards on the CMS-64 report for the quarter ended June 30, 2004. The department filed an amended report and made appropriate adjustments in October 2004, after it learned of the error.
- On the CMS-64 Report for the quarter ended June 30, 2004, the department used incorrect Federal Medical Assistance Percentages (FMAP) to calculate prior period adjustments. The department promptly revised the report and resubmitted it in October 2004 after receiving notification of the error from a federal CMS auditor. The correction resulted in the department being eligible for an additional \$140,000 in federal funding.
- The department did not timely credit the Medical Assistance program for uncashed checks. Federal regulations require the department to credit the program for uncashed checks beyond 180 days of issuance. The regulations consider uncashed checks beyond 180 days to be an unallowable program expenditure. The state must identify these checks each quarter and refund all federal funds it received for the uncashed checks by adjusting the quarterly CMS-64 Report. The department has only credited the Medical Assistance program for uncashed checks once per year. These checks were 360 to 540 days beyond their issuance dates, far exceeding the 180-day requirement. For the period ended June 30, 2004, there was approximately \$78,000 in uncashed checks that were 360 to 540 days old.

Recommendations

- *The department should improve its reconciliation and reporting process to allow for timely and accurate completion of the CMS-64 Report.*
- *The department should comply with the federal regulations and credit the Medical Assistance program each quarter for uncashed checks beyond 180 days of issuance.*

5. The Department of Human Services did not adequately document certain eligibility criteria for some State Children's Health Insurance Program participants.

The department did not adequately document all components used to determine eligibility for some participants in the State Children's Health Insurance Program (CFDA 93.767). Our testing of a sample of 12 program participants revealed the following weaknesses:

Department of Human Services

- The department could not locate critical documents used to determine eligibility for two sample items. For one sample, the department was unable to locate the application form and income documents. Therefore, we were unable to verify that the eligibility determination made by the department complied with federal regulations. For another sample, we were unable to verify the income used to determine the participant's eligibility since the department was unable to find the required income documentation.
- The department did not adequately document adjustments made to the reported income for one participant. When calculating the income to use in the eligibility determination, the department used income amounts from federal tax returns, but adjusted these amounts. There was no documentation to support the adjustments, which resulted in a net increase to income of \$3,500. The income adjustment did not change the participant's eligibility for the program; however, the monthly premium might have changed.
- The department did not require applicants to sign the signature page of the federal tax return. In other cases, the department did not retain the signature page. By signing their tax return, participants are certifying that the information on the tax return is accurate and complete.
- The department's computer system (MMIS) did not provide historical data showing amounts entered into the system and the person who entered the data. DHS used MMIS when determining eligibility and making payments. In some cases, MMIS stores only the most recent data and no historical data, including the worker who made the determination. The department cannot retroactively review in MMIS the prior income data used to determine eligibility.

By not adequately documenting applicant information, the department was unable to show it complied with all federal eligibility requirements.

Recommendation

- *The department should provide documentation for all components used to determine participant eligibility in the State Children's Health Insurance Program.*

6. The Child Support Enforcement Division did not report accurate and complete accounts receivable information to the Department of Finance.

The Child Support Enforcement Division of the Department of Human Services did not report complete and accurate accounts receivable and collections information to the Department of Finance for financial reporting purposes. The Child Support Enforcement Division did not provide sufficient detail for its accounts receivable, and it submitted some incorrect information. For example, the year-end accounts receivable information the division reported did not show

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accounts receivable detail by the final recipient (i.e. custodial parent, state funds, or federal funds). It also did not show child support collections that repaid the public assistance programs during the year. In addition, the division did not report the amount of year-end accounts receivable collected by the close of the fiscal year. The Department of Finance requires this information to make various adjusting entries for financial reporting purposes.

Recommendation

- *The Child Support Enforcement Division should report accurate and complete accounts receivable and collections information to the Department of Finance.*

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 17, 2005.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: February 15, 2005

Report Signed On: March 10, 2005

Status of Prior Audit Issues As of February 15, 2005

March 18, 2004, Legislative Audit 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 report contained eight findings. We have repeated the unresolved issues as Finding 1 of this report and Finding 4 of Legislative Audit Report 05-13. In addition, the department is continuing to repay the Medical Assistance Program for unallowed chemical dependency services (prior report Finding 1).

February 24, 2005, Legislative Audit Report 05-13: Department of Human Services Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp Programs Eligibility Data Validation Controls assessed the adequacy of the department's process for performing computerized file matches to validate the accuracy and completeness of data provided by applicants of public assistance. The report contained seven findings.

Other Office of the Legislative Auditor Coverage

January 2005 Program Evaluation Report on Child Care Reimbursement Rates (Report 05-01) examined the methods used by the Department of Human Services to set maximum reimbursement rates for subsidized child care. The report contained several findings and recommended that the department revise the methods used to calculate maximum reimbursement rates, seek changes in state laws to allow the department to implement maximum rates based on geographic areas larger than a single county, become more familiar with the information reported in rate surveys, and examine whether there is a problem in some counties with providers charging the program a higher rate than they charge the general public.

Other Audit Coverage

May 2004, Department of Human Services Food Support Quality Control Error Report is published by the Program Assessment and Integrity Division and sent to the U.S. Department of Agriculture. It contains a summary of errors and questioned costs uncovered through the department's food support quality control activities for the federal fiscal year through January 2004.

April 2004, Department of Human Services MFIP Quality Control Error Report is published by the Program Assessment and Integrity Division and sent to the U.S. Department of Agriculture. It contains a summary of errors and questioned costs uncovered through the department's quality control activities from October 2003 through December 2003.

State of Minnesota Audit Follow-Up Process
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<p>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 the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.</p>

Department of Human Services

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Minnesota Department of **Human Services**

March 8, 2005

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, 2004. 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

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2004**

Audit Finding #1

PRIOR FINDING PARTIALLY RESOLVED: The Department of Human Services did not comply with federal regulations when documenting salaries charged to some federal programs.

Audit Recommendation #1-1

The department should provide the appropriate documentation to support its distribution of employee salaries to federal programs in accordance with OMB Circular A-87.

Department Response #1-1

The procedures developed during Fiscal Year 2004 are fully implemented and are being maintained on a quarterly basis beginning with Fiscal Year 2005.

Person Responsible: Martin Cammack

Estimated Completion Date: Completed

Audit Recommendation #1-2

The department should consistently treat similar costs so that any cost allocation produces an equitable distribution.

Department Response #1-2

The department concurs with the finding regarding one mailroom employee's salary being incorrectly charged to the Child Support Enforcement cost pool. The error was corrected as soon as we were notified of it and the required expenditure adjustments have been made.

The department allocates administrative costs to all benefiting programs in accordance with a Cost Allocation Plan (CAP) completed in compliance with federal regulations contained in 45 CFR 95 Subpart E and OMB Circular A-87 which is approved by the Division of Cost Allocation, Department of Health & Human Services. When new accounts are added, a review is completed to determine the program or programs that

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2004**

receive benefit and should be charged, either directly or through an allocation using an allocation basis that accurately measures the benefits to each program. Subsequent amendments to the CAP are submitted whenever changes occur (at least, annually) that impact the allocation of costs as prescribed by 45 CFR 95.509. Periodic meetings are conducted with program and account managers to review the accounts and verify that they are being correctly charged to benefiting programs.

With respect to the employee certification requirement applying to the Child Support Enforcement Program (CFDA 93.563), we believe that certification for IV-D staff is not required. ASMB C-10 Implementation Guide for OMB Circular A-87 states:

“3-19 If an employee works on only one federal award, is a certification required?

Yes. However, this requirement can be met through certain payroll codings and time and attendance certifications pursuant to payroll authorizations. For example, if (1) employees work in a dedicated function; (2) their potential assignment to multiple programs/activities is not within the authority, function, or purview of the supervisor responsible for certifying payroll time and attendance; and (3) the employee is coded to a dedicated function not benefiting multiple functions or programs, the payroll certification shall be accepted in lieu of the semi-annual certification of time and effort.”

Staff of the Child Support Enforcement Division meets these three requirements. IV-D staff (1) work in a dedicated function; (2) their supervisors/managers who certify payroll time and attendance do not have the authority, function or purview to assign activities other than IV-D activities to their staff; and (3) the employees, through the payroll and cost allocation plan are coded to a dedicated function not benefiting multiple functions or programs. Consequently, the semi-annual certification is not required.

Person Responsible: Martin Cammack

Estimated Completion Date: Completed

Audit Finding #2

The Department of Human Services did not comply with federal cash management requirements for the Child Care and Development Block Grant Program.

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2004**

Audit Recommendation #2

The department should comply with federal cash management provisions by ensuring that subrecipients minimize the time between the transfer of federal money and its use.

Department Response #2

The department agrees with the recommendation. We will implement policy and procedure changes for the next grant contracts to document the grantee's need for the cash advance.

Person Responsible: James Huber

Estimated Completion Date: June 30, 2005

Audit Finding #3

The Department of Human Services overpaid some Consolidated Chemical Dependency Treatment Fund providers.

Audit Recommendation #3

The department should use Consolidated Chemical Dependency Treatment Funds (CCDTF) only for allowable costs.

The department should continue to review CCDTF provider billings to determine if it paid for the date of discharge, and should seek repayment for any overpayments.

Department Response #3

The department agrees with the recommendations. In order to meet the expectation that the department use CCDTF only for allowable costs, the department will take advantage of any additional opportunity to reaffirm policy expectations. At this time the department's Chemical Health Division (CHD) will be preparing to implement changes to Rule 25. Part of this preparation is training in regard to Service Agreements. CHD staff will include information about determining treatment start and end dates according to date of discharge policy.

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2004**

The department continues to review CCDTF provider billings, and seeks repayment for overpayments.

Person Responsible: Donald Eubanks

Estimated Completion Date: June 30, 2005

Auditing Finding #4

The Department of Human Services did not ensure that reporting for certain federal programs was timely and accurate.

Audit Recommendation #4-1

The department should improve its reconciliation and reporting process to allow for timely and accurate completion of the CMS-64 Report.

Department Response #4-1

The department agrees with the recommendation that the CMS-64 Reports should be submitted timely. The department will analyze and review its reconciliation procedures and reporting process and implement improvements with the intent of meeting the thirty day deadline on a consistent basis. Further, the Financial Management Division will increase staff cross-training and oversight to assure that the CMS-64 Report is completed promptly and accurately.

Because Minnesota is a county administered state, the thirty day deadline is extremely difficult to manage. The department must include costs incurred by counties, school districts and other local agencies in the CMS-64 Report. Over five hundred reporting entities are submitting reports to the department under tight deadlines. There is little room to further tighten those deadlines to allow the department more report preparation time.

Person Responsible: Martin Cammack

Estimated Completion Date: June 30, 2005

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2004**

Audit Recommendation #4-2

The department should comply with the federal regulations and credit the Medical Assistance program each quarter for uncashed checks beyond 180 days of issuance.

Department Response #4-2

The department agrees with the recommendation. The department will work with the Department of Finance to determine an efficient solution to comply with the federal regulation.

Person Responsible: Martin Cammack

Estimated Completion Date: September 30, 2005

Audit Finding #5

The Department of Human Services did not adequately document certain eligibility criteria for some State Children's Health Insurance Program participants.

Audit Recommendation #5

The department should provide documentation for all components used to determine participant eligibility in the State Children's Health Insurance Program.

Department Response #5

The department agrees with the recommendation. The department will review our policies and procedures to assure documents required to complete an eligibility determination are retained in case records. A corrective action plan will be prepared to strengthen compliance with state and federal laws.

Person Responsible: Kathleen Henry

Estimated Completion Date: June 30, 2005

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2004**

Audit Finding #6

The Child Support Enforcement Division did not report accurate and complete accounts receivable information to the Department of Finance.

Audit Recommendation #6

The Child Support Enforcement Division should report accurate and complete accounts receivable and collections information to the Department of Finance.

Department Response #6

The department agrees with the recommendation that the child support enforcement accounts receivable report should meet the accounting requirements established by the Department of Finance. The PRISM system will provide the detail for year end fund accounting for accounts receivables by custodial parents, general fund, federal fund, and special revenue funds. In addition, department policies and procedures will change and the child support accounts receivable information will be reported to the

Department of Finance with the other department accounts receivables. These changes will bring child support enforcement receivables into compliance with Department of Finance requirements.

Person Responsible: Wayland Campbell

Estimated Completion Date: June 30, 2005

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Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Jerry Soma, Director of Human Services
Anoka County

We have performed certain audit procedures at Anoka County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2004. The objective of our work at Anoka County was to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the Medical Assistance (CFDA # 93.778), Temporary Assistance for Needy Families (CFDA # 93.558), and federal Food Stamp (CFDA # 10.551) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services benefit payment process. Our work was very limited in scope and was not a comprehensive audit of Anoka County.

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

We identified the following findings and recommendations as a result of our work at Anoka County for fiscal year 2004. We will include these findings in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

1. Anoka County did not specifically monitor high-risk eligibility override transactions.

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services' (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public

Anoka County

assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Anoka County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed an Anoka County FIAT report we had produced, they were surprised at the number of FIATS being done, especially by certain individual caseworkers. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS, and management has not developed and implemented adequate independent oversight. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage.

Recommendation

- *Anoka County management should develop and implement procedures to monitor eligibility override transactions.*

2. Anoka County did not adequately monitor employee access to the state's eligibility determination system.

One county caseworker had the ability within MAXIS to disburse benefits, including setting up electronic benefit cards and issuing checks. This access was incompatible with the worker's case management duties because it would allow an individual worker to both set up and pay benefits to a recipient.

In addition, several county human services workers had the access, but not the authority to set up benefit payment vendors within MAXIS. The county designated five employees to enter vendors and gave them the MAXIS-VND* security clearance. However, we found that an additional five employees also had the MAXIS-VND* security clearance. It did not appear that all of these employees needed this access in order to fulfill their job duties. The county should review all employees with the access to set up vendors and minimize the number of employees with that authority.

Recommendation

- *County management should develop and implement procedures to periodically monitor MAXIS security to ensure that county employees only have the minimum access needed for their job duties.*

Anoka County

This report is intended for the information of the Legislative Audit Commission and the management of Anoka County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 17, 2005.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

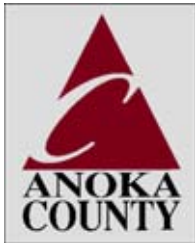
/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 26, 2004

Report Signed On: March 10, 2005

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COUNTY OF ANOKA

HUMAN SERVICES DIVISION

Income Maintenance Department

Government Center • 2100 3rd Avenue • Anoka, MN 55303-2264
763-422-7200; FAX 763-323-6046; TTY 763-422-7166

• Human Services Center - Blaine
763-717-7700; FAX 763-783-4899;
TDD 763-717-7813

• Office of Child Support
763-422-7320;
FAX 763-323-6050

• Southern Neighborhood Center
763-789-4326;
FAX 763-788-1194

• Eastern Human Service Center
763-795-5720
FAX 763-795-5747

February 28, 2005

Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Ms. Leifeld,

This letter is written as a follow-up to the audit of the State of Minnesota's major federal assistance programs for the year ending June 30, 2004 that was completed in Anoka County Income Maintenance Department.

Your findings indicate that 'Anoka County management should develop and implement procedures to monitor eligibility override transactions'. Anoka County continuously completes case reviews on a random basis plus we complete periodic special targeted case reviews. When reviews are done we include a review of all case actions, including FIAT transactions, if they occurred. Your report is correct in that we did not specifically target override/FIATED cases for monitoring review. We are not aware of any instance where a FIATED case resulted in inappropriate issuances of benefits. Since FIAT/override reports have now been made available to counties, this makes it possible for counties to review and monitor FIAT usage. As the person responsible for resolution of this issue, I will develop and implement procedures that combine reviews of override/ FIATED cases for anomalous use and random review selection by means of the report provided by DHS. Any training found to be necessary or appropriate relating to proper utilization of the FIAT function will be completed.

Your second recommendation was, 'County management should develop and implement procedures to periodically monitor MAXIS security to ensure that county employees only have the minimum access needed for their job duties.' In your review one worker was found to have incompatible access and this instance has been specifically rectified.

Also mentioned in this section of your report was that the county should minimize the number of employees who have designated authority to enter vendors. We will continue to request modification of the state held list. Anoka County does have an internal list of persons who are authorized to add vendors and this is honored and monitored. Additionally, Anoka County Income Maintenance has internal procedures to monitor and review the addition of every vendor to the MAXIS system to ensure proper and appropriate additions are done by authorized staff. As the person responsible for resolution of this issue I will ensure that procedures will be developed and implemented that include periodic monitoring of MAXIS security roles that allow the minimum authorized access necessary for their job duties. Both of these recommendations will be implemented by April 15, 2005. Please contact me if I can be of any further assistance or if there are questions remaining. My number is 763-717-7736.

Yours truly,

/s/ Edna Hoium

Edna Hoium, Director
Income Maintenance Department

cc: Jerry Soma, Anoka County Human Services Division Manager

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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. Dave Rooney, Director of Community Services
Dakota County

We have performed certain audit procedures at Dakota County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2004. The objective of our work at Dakota County was to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the Medical Assistance (CFDA # 93.778), Temporary Assistance for Needy Families (CFDA # 93.558), and federal Food Stamp (CFDA # 10.551) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. Our work was very limited in scope and was not a comprehensive audit of Dakota County.

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

We identified the following finding and recommendation as a result of our work at Dakota County for fiscal year 2004. We will include this finding in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

1. Dakota County did not adequately monitor high-risk eligibility override transactions.

County human services managers and supervisors did not specifically monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or inaccurately deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public

Dakota County

assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Dakota County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed a Dakota County FIAT report we had produced, they were surprised by the quantity of FIATS done by some individual caseworkers. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS, and management has not developed and implemented adequate independent oversight.

Recommendation

- *Dakota County management should develop and implement procedures to adequately monitor eligibility override transactions.*

This report is intended for the information of the Legislative Audit Commission and the management of Dakota County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 17, 2005.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 26, 2004

Report Signed On: March 10, 2005

Dakota
COUNTY

February 18, 2005

Community Services
Administration
David A. Rooney
Director

Dakota County
Northern Service Center
1 Mendota Rd W Ste 500
West St Paul, MN 55118-4773

651.554.5742
Fax 651.554.5948

www.co.dakota.mn.us

Jeanine Leifeld, CPA
Audit Manager
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Ms. Leifeld:

We are in receipt of your final draft management letter summarizing the results and findings of your review of Dakota County's internal control and compliance with recipient eligibility applicable to Medical Assistance, TANF and Food Stamps for the fiscal year ended June 30, 2004. Your sole recommendation listed in the letter is that "Dakota County management should develop and implement procedures to adequately monitor eligibility override transactions."

During our exit conference with you on February 14th, we reviewed the fact that Dakota County does have a random supervisory case review system for these programs as well as the other Public Assistance Programs we administer. I mentioned that for calendar year 2004, in excess of 1,000 formal random supervisory case reviews were completed on approximately 2,000 program eligibility determinations. In addition, there were over 1,500 informal case reviews completed by trainers and Fraud Prevention Unit staff. As a part of the case review program we have in place, MAXIS functionality, including the FIAT/override function, is reviewed. Our experience from the reviews is that the use of FIAT functionality has not resulted in incorrect issuances of benefits. However, we do not have a formal system in place to specifically target case reviews on which the FIAT function was used.

As you mention, DHS now has FIAT reports available to assist counties in monitoring their FIAT usage. I will ensure that the use of these reports will be incorporated into our random case review selection process by April 15th. Thus, some of the randomly selected cases will be from the DHS reports. Also, supervisors will screen these reports for unusual activity or patterns.

Feel free to contact me at 651-554-5610 if I can be of further assistance related to your report.

Very truly yours,

/s/ Dennis H. Anderson,

/s/ David Rooney

Dennis H. Anderson,
Deputy Director

David Rooney
Director, Community Services

C:
Ruth Krueger, Director, Employment and Economic Assistance
Colleen Elliott, Program Supervisor
Carla Wick, Program Supervisor

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Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Daniel Engstrom, Director of Human Services
Hennepin County

We have performed certain audit procedures at Hennepin County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2004. The objective of our work at Hennepin County was to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the Medical Assistance (CFDA # 93.778), Temporary Assistance for Needy Families (CFDA # 93.558), and federal Food Stamp (CFDA # 10.551) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. Our work was very limited in scope and was not a comprehensive audit of Hennepin County.

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

We identified the following findings and recommendations as a result of our work at Hennepin County for fiscal year 2004. We will include these findings in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

1. Hennepin County did not monitor high-risk eligibility override transactions.

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public

Hennepin County

assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Hennepin County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed a Hennepin County FIAT report we had produced, they were surprised that certain general FIAT codes were routinely being used, when more specific FIAT codes exist. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS and management has not developed and implemented adequate independent oversight. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage.

Recommendation

- *Hennepin County management should develop and implement procedures to monitor eligibility override transactions.*

2. Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.

Hennepin County did not resolve income discrepancies identified by the Income Eligibility and Verification System (IEVS) in a timely manner, as required by federal regulations. In order to comply with federal requirements, the state Department of Human Services (DHS) coordinates data exchanges with other sources for the Temporary Assistance for Needy Families (TANF, CFDA 93.558) and the Medical Assistance (CFDA 93.778) programs. This data exchange, called IEVS, 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 Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. For the period July 1, 2003, through August 2, 2004, Hennepin County's resolution rate was 63 percent.

The state and counties have taken steps to increase the timeliness of income discrepancy resolution. DHS has issued an instructional bulletin with suggestions for improving performance, provided additional training resources for county staff, discontinued some optional matches, worked more closely with the largest counties, and followed up with county financial workers who were not timely with the resolution of income discrepancies. DHS also issues a

Hennepin County

monthly report, which shows all of the unresolved IEVS matches. However, the state does not meet timeliness requirements established by the federal government. Hennepin County is a significant contributor to that compliance concern. By not timely resolving income discrepancies, the state and its counties are at risk of providing assistance payments to ineligible recipients.

Recommendation

- *Hennepin County should continue to work with the Minnesota Department of Human Services to resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

This report is intended for the information of the Legislative Audit Commission and the management of Hennepin County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 17, 2005.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 26, 2004

Report Signed On: March 10, 2005

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Hennepin County Human Services & Public Health Department

Eligibility Support Services
Hennepin County Government Center
300 South Sixth Street
Minneapolis, Minnesota 55487

Type Phone Number, Phone
612-288-2981, Fax
www.hennepin.us

February 22, 2005

Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
State of Minnesota
Room 140
Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Ms. Leifeld,

Enclosed is Hennepin County's formal response to the audit findings for the year that ended June 30, 2004.

For each finding, Hennepin County had already taken preliminary steps to address the identified issues. We do, however, recognize the need for more comprehensive corrective action plans, and we have taken steps to put those in place.

Finding #1

Hennepin County did not monitor high-risk eligibility override transactions.

In June 2004, county supervisors did review a FIAT report covering the period April 1, 2003 through April 30, 2004. That report was the basis for analysis and corrective actions undertaken during the period June 2004 – September 2004. Actions included:

- A review of a list of valid FIAT codes produced by the State, and a survey of staff to determine whether there were recommended changes.
- Identification of the highest FIAT users within the county.
- Distribution of the valid FIAT codes to all supervisors, who shared this information with their staff.
- A question of whether FIAT was used appropriately was included among items to be reviewed on monthly case reviews that supervisors must complete.

A FIAT report is currently made available by the state on a monthly basis. The report consists of 5000 pages in an electronic format, and requires scrolling from side to side and up and down to read each page. A request for a more user-friendly report has been initiated.

Corrective Action Plan for Finding #1

- A desk guide listing appropriate FIAT codes will be created for staff use by April 30, 2005.
- Appropriate use of FIAT will continue to be highlighted as an item to be reviewed on the monthly case reviews that are to be completed by all supervisors.
- The topic of FIAT will be addressed at supervisory and staff meetings to emphasize the importance, and to check for understanding of the appropriate use of FIAT. These meetings will be conducted by no later than the end of April 2005.
- A request has already been initiated with county analyst staff to work with the state to develop a more user-friendly FIAT report, to be made available on a monthly basis.
- The FIAT report will be reviewed by managers on a monthly basis to monitor for high individual FIAT users, and all other irregularities.

Completion date of plan: With the exception of creating a user-friendly report, which is dependent upon the state, all other facets of the plan will be in place by April 30, 2005.

Persons Responsible for Plan: Human Services Program Managers, Tom Pingatore, Adults Area and Lisa Groves, Families Area.

Finding #2

Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.

Hennepin County has been reviewing the way in which this work is handled, and determined during the last quarter of 2004 that specializing this task would allow us to be more effective. Since December 2004, the Debt Establishment Unit has been responsible for resolving all income discrepancies in the families area, and part of the adults area. During that time, the target of resolving at least 80% of discrepancies within 45 days has been met. With these positive results, we have decided to add responsibility for all of the adults area to this unit.

Corrective Action Plan for Finding #2

Responsibility for resolving income discrepancies for all areas will be assigned to the Debt Establishment Unit, which is supervised by Lynn Spanton. This unit has demonstrated the ability to meet the goal of 80% resolution within 45 days. If they should encounter future difficulty in meeting that goal, Lynn will notify managers in the families and adults areas, and additional resources will be allocated to the task.

Completion date of plan: March 1, 2005.

Persons responsible for plan: Human Services Program Managers, Tom Pingatore, Adults Area and Lisa Groves, Families Area.

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Mr. Monty Martin, Director of Human Services
Ramsey County

We have performed certain audit procedures at Ramsey County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2004. The objective of our work at Ramsey County was to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the Medical Assistance (CFDA # 93.778), Temporary Assistance for Needy Families (CFDA # 93.558), and federal Food Stamp (CFDA # 10.551) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. Our work was very limited in scope and was not a comprehensive audit of Ramsey County.

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

We identified the following findings and recommendations as a result of our work at Ramsey County for fiscal year 2004. We will include these findings in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

1. Ramsey County did not monitor high-risk eligibility override transactions.

County human services managers and supervisors did not routinely monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp Programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public

Ramsey County

assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Ramsey County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS and management has not developed and implemented adequate independent oversight.

Recommendation

- *Ramsey County management should develop and implement procedures to routinely monitor eligibility override transactions.*

2. Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.

Ramsey County did not resolve income discrepancies identified by the Income Eligibility and Verification System (IEVS) in a timely manner, as required by federal regulations. In order to comply with federal requirements, the state Department of Human Services (DHS) coordinates data exchanges with other sources for the Temporary Assistance for Needy Families (TANF, CFDA 93.558) and the Medical Assistance (CFDA 93.778) programs. This data exchange, called IEVS, 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 Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. For the period July 1, 2003 through August 2, 2004, Ramsey County's resolution rate was 65 percent.

The state and counties have taken steps to increase the timeliness of income discrepancy resolution. DHS has issued an instructional bulletin with suggestions for improving performance, provided additional training resources for county staff, discontinued some optional matches, worked more closely with the largest counties, and followed up with county financial workers who were not timely with the resolution of income discrepancies. DHS also issues a monthly report, which shows all of the unresolved IEVS matches. However, the state does not meet timeliness requirements established by the federal government. Ramsey County is a significant contributor to that compliance concern. By not timely resolving income

Ramsey County

discrepancies, the state and its counties are at risk of providing assistance payments to ineligible recipients.

Recommendation

- *Ramsey County should continue to work with the Minnesota Department of Human Services to resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

This report is intended for the information of the Legislative Audit Commission and the management of Ramsey County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 17, 2005.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 26, 2004

Report Signed On: March 10, 2005

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Community Human Services Department

160 Kellogg Blvd E
St. Paul, MN 55101-1494

Financial TDD: 651-266-3750
Services TDD: 651-266-4002
General Info: 651-266-4444

February 22, 2005

Jeanine Leifeld, Audit Manager
Office of the Legislative Auditor
Room 140, Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Ms. Leifeld:

This is our response to the results of your agency's audit of Ramsey County's administration of the federal recipient eligibility requirements applicable to the Medical Assistance (CFDA #93.778), Temporary Assistance for Needy Families (CFDA #93.558), and federal Food Stamp (CFDA #10.551) programs. Your findings and our response follows

Finding 1. Ramsey County did not consistently monitor high-risk eligibility override transactions.

The actions to which you refer are commonly called the FIAT function of MAXIS. For some programs FIAT is the only method of creating eligibility results. For other programs, most notably the Food Support program, FIAT should rarely be required. Your recommendation is:

Ramsey County management should develop and implement procedures to monitor eligibility override transactions.

In response, Ramsey County will run a monthly report of FIAT activity by worker and review that report for anomalous use of the FIAT function. We will follow up with targeted review of cases with such actions and review the activity of workers found to have a pattern of unnecessary use of the FIAT function.

Finding 2. Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.

The particular discrepancies referred to in the audit are the information we receive from the Income Eligibility and Verification System (IEVS). The IEVS system matches income from program recipients to other federal systems. These matches are reported monthly and the minimum acceptable federal rate of resolution of these matches is 80% within 45 days of our receiving the match. Our resolution rate for the month of the audit was 65%. Your recommendation is:

Ramsey County should continue to work with the Minnesota Department of Human Services to resolve Income Eligibility Verification System discrepancies in a timely manner.

In response, Ramsey County proposes to take the following actions.

- Continue to provide supervisors with a monthly list of the overdue IEVS verifications in their units.
- Identify staff or units who do not meet the compliance standard and focus on getting those staff or units into compliance.
- Continue to make IEVS resolutions a priority for monthly casework by requiring every unit to have and follow a monthly IEVS resolution plan.

It is our expectation that following this plan will quickly bring Ramsey County into compliance with federal IEVS resolution requirements.

You may address questions about this plan or any issues regarding the audit to either:

Nancy Cincotta, 651-266-4545, Nancy.J.Cincotta@co.ramsey.mn.us, or
Shannon Kennedy, 651-266-4604, Shannon.Kennedy@co.ramsey.mn.us

Unless we hear otherwise from your office we intend to put this plan into effect for March of 2005.

/s/ Monty Martin

Monty Martin, Human Services Director

/s/ Nancy Cincotta

Nancy Cincotta, Human Service Manager

/s/ Shannon Kennedy

Shannon Kennedy, Human Service Manager



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Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Ann Busche, Director of Human Services
Saint Louis County

We have performed certain audit procedures at Saint Louis County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2004. The objective of our work at Saint Louis County was to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the Medical Assistance (CFDA # 93.778), Temporary Assistance for Needy Families (CFDA # 93.558), and federal Food Stamp (CFDA # 10.551) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. Our work was very limited in scope and was not a comprehensive audit of Saint Louis County.

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

We identified the following findings and recommendations as a result of our work at Saint Louis County for fiscal year 2004. We will include these findings in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

1. Saint Louis County did not monitor high-risk eligibility override transactions.

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public

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assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Saint Louis County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed a Saint Louis County FIAT report we had produced, they were surprised at the number of FIATS being done, especially by certain individual caseworkers. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS, and management has not developed and implemented adequate independent oversight. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage.

Recommendation

- *Saint Louis County human services management should develop and implement procedures to monitor eligibility override transactions.*

2. Saint Louis County had weaknesses in the controls over cash benefit payments made directly to vendors and alternate payees.

We found significant weaknesses in the way Saint Louis County sets up vendors for cash benefit payments under the Temporary Assistance for Needy Families (CFDA 93.558) program. A financial assistance worker may set up vendors to pay a recipient's cash benefits directly to landlords, utility companies, and others. Certain workers have the ability and security clearance to establish a pending vendor. Pending status vendors can receive payments. A county worker may also establish an alternate payee when the client needs a responsible party to manage the client's benefits. Alternate payees are active as soon as they are established. These payments are high-risk because the cash benefits are being paid to someone other than the intended recipient.

The Minnesota Department of Human Services (DHS) relies on counties to review the vendors listed on the weekly vendor payment reports that the state creates. Although managers and supervisors at Saint Louis County reviewed vendor names sporadically, they did not do the reviews often enough to adequately control the payment process. In addition, they did not review alternate payee names. Finally, we found that the county never reviewed the addresses of vendors or alternate payees for legitimacy, including cross-checking the mailing addresses to county employees' home addresses. Because of this, Saint Louis County risks making payments to inappropriate or fictitious vendors and alternate payees, or sending legitimate warrants to a false address.

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Recommendation

- *Saint Louis County management should develop and implement procedures to adequately review the legitimacy of vendors and alternate payees and their addresses.*

This report is intended for the information of the Legislative Audit Commission and the management of Saint Louis County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 17, 2005.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: July 26, 2004

Report Signed On: March 10, 2005

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Saint Louis County

Public Health and Human Service Department • www.co.st-louis.mn.us

Ann M. Busche
Director

March 1, 2005

James Nobles, Legislative Auditor
Office of the Legislative Auditor
Room 140 Centennial Building
658 Cedar Street
St. Paul, Minnesota 55155-1603

Re: St. Louis County Audit of Internal Control and Compliance with Federal
Program Requirements

Dear Mr. Nobles:

Enclosed are the St. Louis County management representation letter with original signatures, a written response to comments and recommendations from your auditors, and an electronic copy of the same.

If further information of clarification is needed; I can be reached by phone at 218-742-9525, or by email at saukkos@co.st-louis.mn.us.

Please allow me to add that your staff who conducted the audit in our county were pleasant, helpful, and professional in their work.

Sincerely,

/s/ Shelley M. Saukko

Shelley M. Saukko, Division Director
St. Louis County Public Health and Human Services

cc: Ann Busche, Director
Janine Leifeld, CPA

WRITTEN RESPONSE TO COMMENTS AND RECOMMENDATIONS
St. Louis County 2004 Legislative Audit

1. FIAT eligibility override transactions - six steps have been identified to address FIAT review:
 - a.) Because several programs in MAXIS (General Assistance, Minnesota Supplemental Aide, and Food Support with these cases) must be fiated, a formal request will be made of DHS to automate these programs, which would nearly eliminate the need for fiat. By 4/1/05.
 - b.) One clerical staff person will be assigned to print Infopac FIAT reports monthly. These reports will be distributed to Supervisors by unit. By 4/1/05
 - c.) Supervisors will review monthly FIAT reports with staff members within their units. Begin by 5/1/05.
 - d.) Supervisors will take note of workers with consistently high FIAT numbers and monitor staff for improvement. Begin by 5/1/05.
 - e.) Training on Fiat will be mandated for all financial workers; the FAD Training Coordinator will conduct this training. By 9/1/05.
 - f.) Case reviews by supervisors will be conducted at a rate of 5 reviews per month. Instituted 1/1/05.
2. Cash benefit payments made directly to vendors and alternate payees – five steps have been identified to address vendor payments:
 - a.) Only supervisors will be authorized to set up alternate payees.
 - b.) A current policy on establishment of vendors within St. Louis County will be enforced, denying financial workers access to creating new vendors; all new vendors will be placed into the system by staff from Accounting/Fiscal. Effective 4/1/05.
 - c.) On going: one staff member will be identified to print the New Alternative Payee list and New Vendor list from DHS as they become available, divide the lists by unit, and distribute to supervisors for review. By 5/1/05.
 - d.) A formal request will be made to DHS to eliminate financial worker access to vendor establishment. This is essential to the ability of St. Louis County to enforce the vendor policy that we have established. By 4/1/05.
 - e.) Case reviews by supervisors will be conducted at a rate of 5 reviews per month. Instituted 1/1/05.