



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Human Services
Fiscal Year 2005



March 16, 2006

06-10

Financial Audit Division

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

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

The division has a staff of approximately 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:

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Susan Kachelmeyer, CPA, CISA	Team Leader
Pat Ryan	Team Leader
Ching-Huei Chen, CPA	Auditor
Marisa Isenberg	Auditor
Sonya Johnson, CPA	Auditor
Patrick Phillips, CPA	Auditor
Tim Rekow	Auditor
Ellen Sibley, CPA	Auditor
Laurinda Zavala	Auditor
Kimberly Schwagerl	Audit Intern
Caroline Stallkamp	Audit Intern

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Human Services on March 2, 2006:

Anne Barry	Chief Compliance Officer
David Ehrhardt	Internal Audit Director
Martin Cammack	Financial Operations Director
Erin Sullivan Sutton	Child Safety & Permanency Director
Kathleen Henry	Healthcare Eligibility and Access Director
Phillip Ohman	Accounting Operations Manager
Bette O'Donnell	Financial Operations

Report Summary

Key Audit Findings:

- The department did not have a process to verify that it received accurate supplemental drug rebates. (Finding 1, page 5)
- The department did not adequately document certain eligibility criteria for two federal programs. (Finding 2, page 5)
- The department did not accurately report federal spending in the state's financial reports. (Finding 3, page 6)
- The department has not reevaluated the monthly adoption assistance maintenance subsidy amounts since 1990. (Finding 4, page 7)
- The department did not have adequate controls over some aspects of its indirect cost allocations. (Finding 5, page 8)

Key Audit Finding – Selected County Human Services Offices:

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

The audit report contained seven audit findings addressed to the Department of Human Services relating to internal control and legal compliance. The department resolved all prior findings except for the issue repeated as Finding 2 of this report. The report also contained a total of five audit findings addressed to three county human services offices.

Audit Scope:

- Programs material to the State of Minnesota's fiscal year 2005 financial statements, including payments to counties for the administration of various programs, payments made through the department's eligibility system for family support programs, medical program expenses, and Medical Assistance drug rebates.
- Internal control and federal compliance over 15 federally funded programs, such as Medical Assistance, State Children's Health Insurance Program, Temporary Assistance to Needy Families, Food Stamps, Child Support Enforcement, and Child Care.
- Testing of recipient eligibility for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs at selected county human services offices.

Agency Background:

The Department of Human Services is responsible for administering many public assistance and social service programs. County human services offices determine eligibility for the state's public assistance programs.

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, 2005. 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, 2005. 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 department's eligibility 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, 2005, were free of material misstatement.

Table 1 identifies the State of Minnesota's major federal programs administered by the Department of Human Services. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs. We also audited the department's cash management practices and other general compliance requirements related to federal assistance. 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 three 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 2005 (in thousands)

<u>Program Name</u>	<u>CFDA</u> <u>Number</u> ^(Note 1)	<u>Federal</u> <u>Expenditures</u>
Food Stamp Cluster:		
Food Stamps	10.551	\$ 268,468
Food Stamp Administration	10.561	\$ 39,930
Temporary Assistance for Needy Families	93.558	\$ 210,249
Substance Abuse Prevention and Treatment		
Block Grant	93.959	\$ 23,511
Child Support Enforcement	93.563	\$ 98,348
Child Care Cluster:		
Child Care and Development Block Grant	93.575	\$ 65,703
Child Care Mandatory and Matching Fund	93.596	\$ 47,283
Foster Care	93.658	\$ 70,601
Adoption Assistance	93.659	\$ 21,241
State Children's Health Insurance Program	93.767	\$ 76,482
Medical Assistance Cluster:		
Medical Assistance	93.778	\$ 2,949,782
State Health Care Providers' Survey	93.777	\$ 4,201
Aging Cluster: ^(Note 2)		
Support Services and Senior Centers	93.044	\$ 7,564
Nutrition Services	93.045	\$ 7,364
Nutrition Services Incentive Program	93.053	\$ 2,402

Note 1: The Catalog of Federal Domestic Assistance (CFDA) is a database of all federal programs. The CFDA number uniquely identifies each federal program.

Note 2: Information and conclusions on this program were also included in Legislative Audit Report 05-46.

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System for fiscal year 2005.

Conclusions

Our November 18, 2005, 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, 2005. In accordance with *Government Auditing Standards*, we also issued our report, dated November 18, 2005, 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 2006, 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.

Department of Human Services

Findings and Recommendations

1. The Department of Human Services did not have a process to verify that it received accurate supplemental drug rebates.

The department did not have an adequate process to ensure that a third-party processor sent the appropriate supplemental drug rebate amounts to the state. During fiscal year 2005, the department received over \$5 million in supplemental drug rebates from the processor. The department expects this amount to increase in the future. The Supplemental Drug Rebate Program is part of the Medical Assistance Program (CFDA 93.778), and rebates are split between the federal and state governments.

On behalf of several states, a third-party processor negotiated with pharmaceutical companies to determine the unit drug rebate amounts and collect the rebates. However, the department was unable to verify the accuracy of amounts it received because the processor considered the unit rebate amounts to be proprietary information and refused to share it with the department. The department did not implement any alternative procedures, such as requiring an audit of the processor, to gain assurance about the accuracy of the rebates received. Without verification procedures or reliance on an audit of the processor, the department is unable to ensure it received the correct rebate amounts.

Recommendation

- *The department should ensure the accuracy of the supplemental drug rebates determined by a third-party processor by verifying the units dispensed to the state's medical assistance payment system and recalculating rebate amounts, or by requesting an audit of the processor.*

2. The Department of Human Services did not adequately document certain eligibility criteria for two federal programs.

The department was missing certain key documentation to support recipient eligibility determinations for two federal programs, the Adoption Assistance Program (CFDA 93.659) and the State Children's Health Insurance Program (CFDA 93.767). It is important for the department to maintain complete documentation to show that eligibility determinations were correct.

The department did not have adequate documentation to support its review of eligibility determinations for the Adoption Assistance Program. If a child meets four specific criteria, the child's family is eligible to receive adoption assistance maintenance subsidies. The eligibility determinations originate with child placing agencies. The department requires the agencies to send in documentation supporting their eligibility determinations. The department then reviews the documentation and verifies the agencies' determinations. The department's eligibility files were incomplete for 26 of the 58 sample items tested. Ultimately, the department was able to obtain copies of the missing documentation for all sample items except one.

Department of Human Services

In one case, the department was missing documentation to support an eligibility determination for the State Children's Health Insurance Program. Also, as reported in our prior audit, the department had documentation weaknesses relating to worker case notes in the department's eligibility and payment system. Although case note documentation had improved, there were still instances where the eligibility and payment system did not show all amounts entered nor identify the person who entered the data. In some cases, the system stored only the most recent data but no historical data.

Recommendations

- *The department should collect and maintain all documentation necessary to support its verification of the adoption assistance eligibility determinations.*
- *The department should improve its documentation of eligibility decisions for the State Children's Health Insurance Program.*

3. The Department of Human Services did not accurately report federal spending in the state's financial reports.

The department has not maintained sufficient internal controls to ensure the reporting accuracy of federal program expenditures for the schedule of federal expenditures published in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*. Program accountants at the department use preliminary data supplied by the Department of Finance to calculate the federal programs' expenditure amounts.

The accountants made numerous errors when determining the expenditure amounts for their schedules. The errors included failing to correctly record expenditure accruals, misclassifying certain transactions, and making mathematical errors. Also, in some cases, the accountants did not report amounts in the federal program schedules consistent with amounts reported in the state's financial statements. These errors and inconsistencies resulted in audit adjustments totaling nearly \$188 million.

Recommendation

- *The department should improve controls over financial reporting by adequately training staff and verifying the accuracy and completeness of federal program schedules.*

Department of Human Services

4. The Department of Human Services has not reevaluated the monthly adoption assistance maintenance amounts since 1990.

It is unclear if the department is calculating its monthly adoption assistance maintenance subsidies according to Minnesota Rules. Although the rule provides for annual increases in the monthly subsidy amounts, the increases may not be mandatory. The department makes monthly maintenance payments to eligible adoptive parents under the Adoption Assistance Program. States implement the program according to their state plan. In Minnesota, the state plan refers to the Minnesota Rules for the subsidy amounts. Minnesota Rule¹ specifies monthly basic maintenance subsidy amounts and states that “increases in the monthly payment are based on the annual percentage change indicated by the Minnesota Urban Area Consumer Price Index.”

In 1990, the department increased the amount it paid in monthly maintenance subsidies. However, the department could not provide documentation to support the calculation of the revised subsidy amounts. The department also did not change the specific amounts listed in the rule. The department has not changed the maintenance subsidy amounts since 1990.

Recommendation

- *The department should seek clarification of the adoption assistance rule addressing the frequency of the maintenance subsidy adjustment and should amend the rule if necessary.*

5. The Department of Human Services did not have adequate controls over some aspects of its indirect cost allocations.

The department did not ensure the accuracy of some of its indirect cost allocations. In many cases, the department charges indirect costs shared by several programs to a common account, and later distributes those costs among several programs. This process is called indirect cost allocation. During fiscal year 2005, the department allocated an average of \$61 million each quarter. The department did not have adequate controls over some aspects of indirect cost allocations to ensure that programs were being charged appropriately.

First, the department did not compare total indirect costs to the total allocated costs after the cost allocation process had been completed each quarter. This comparison would ensure that the department included all costs and adjustments. It also ensures that all costs and adjustments were actually allocated to the individual programs. We performed this comparison and found no differences.

Second, the program accountant did not accurately record Medical Assistance Program (CFDA 93.778) indirect costs in the accounting system. Over the last few years, the accountant has made numerous coding errors, including using incorrect object codes and record dates. As a

¹ Minnesota Rule 9560.0083

Department of Human Services

result, the department has been unable to verify if the Medical Assistance Program correctly paid the appropriate portion of the allocated indirect costs.

Recommendations

- *The department should reconcile total indirect costs to total allocated costs each quarter to ensure it included all costs and adjustments and that it actually allocated all costs to the individual programs.*
- *The department should review prior years' cost allocations and compare the Medical Assistance Program's allocated indirect costs to paid indirect costs to ensure the program paid the correct amount of indirect costs.*

6. The Department of Human Services did not request federal medical assistance reimbursements in a timely manner.

The department did not request in a timely manner reimbursement for the federal share of medical assistance expenditures for the period June 30, 2005, through August 9, 2005. This resulted in the program having a negative cash balance of between \$23 and \$29 million during that period.

The medical assistance program accountant typically requests federal reimbursements on a biweekly basis to coincide with payment processing cycles. The accountant calculates the reimbursement amount by determining the negative cash balance in the federal account using the state's accounting system. On June 29, 2005, the department processed a \$24.6 million expenditure correction to move expenditures into a federal account. However, the program accountant did not request federal reimbursement at this same time. The state then experienced a partial shutdown, and the program accountant was laid off. After the shutdown ended, the program accountant reviewed the account in August 2005, realized the omission, and requested the federal reimbursement. By not reviewing the account's cash balance and requesting reimbursement in a timely manner, the state subsidized the federal account, resulting in lost investment income for the state.

Recommendation

- *The department should monitor cash balances in the federal medical assistance account and request reimbursements from the federal government in a timely manner.*

Department of Human Services

7. Department of Human Services' staff assigned to the Board on Aging did not accurately prepare three federal reports.

The staff incorrectly prepared semi-annual federal SF-269 reports for the Support Services and Senior Centers Program (CFDA 93.044), the Nutrition Services Program (CFDA 93.045), and other aging-related federal programs. On three SF-269 reports for fiscal years 2004 and 2005, the staff entered the incorrect total federal share, double counted third-party (in kind) contributions, or omitted the state match share. The staff correctly reported the total federal share on the March 31, 2005, SF-269 report. Since the other two errors related to non-federal funds, the staff intends to adjust the amounts on the next report rather than revise and resubmit the prior reports.

Recommendation

- *The department should ensure the accuracy and completeness of federal aging program reports.*

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 16, 2006.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: February 10, 2006

Report Signed On: March 13, 2006

Department of Human Services

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Status of Prior Audit Issues As of February 10, 2006

March 17, 2005, Legislative Audit Report 05-18 examined the Department of Human Services' activities and programs material to the State of Minnesota's *Comprehensive Annual Financial Report* and the Single Audit for the year ended June 30, 2004. The report contained six findings related to the department and nine findings at the counties. The department resolved all findings except for the issue related to the State Children's Health Insurance Program, which we have repeated as Finding 2 of this report. In addition, we have repeated in the county management letters five issues as partially or not resolved.

August 18, 2005, Legislative Audit Report 05-46: Minnesota Board on Aging reviewed the internal controls and compliance over aging cluster grants, payroll, and administrative expenditures. The report contained four findings, including Finding 1 that related to the aging cluster. The finding stated that Department of Human Services' staff assigned to the Board on Aging did not complete a required federal report and could not provide documentation to support amounts on other reports. During the Department of Human Services audit, we determined if the staff had completed the report and reviewed it for accuracy. We noted the reporting issues discussed in Finding 7 of this report.

Other Office of the Legislative Auditor Coverage

February 2006, Program Evaluation Report on Child Support Enforcement reviewed the performance and administration of the child support enforcement program. The evaluation determined the challenges faced in administering a cost-effective program that provides consistent services throughout the state, and examined the actions the state could take to improve the program's performance. The report contained several findings and recommended five ways that the Legislature and the department could strengthen program accountability.

Other Audit Coverage

December 2005, Department of Human Services Food Support Program Quality Control Accuracy Report was published by the Program Assessment and Integrity Division and sent to the U.S. Department of Agriculture. It contained a summary of errors and questioned costs uncovered through the department's food support quality control activities for the 2005 federal fiscal year through July 2005.

December 2005, Department of Human Services Minnesota Family Investment Program Quality Control Accuracy Report was published by the Program Assessment and Integrity Division and sent to the U.S. Department of Agriculture. It contained a summary of errors and questioned costs uncovered through the department's quality control activities for the 2005 federal fiscal year through July 2005.

State of Minnesota Audit Follow-Up Process
<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 10, 2006

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, 2005. 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) 431-3619.

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, 2005**

Audit Finding #1

The Department of Human Services did not have a process to verify that it received accurate supplemental drug rebates.

Audit Recommendation #1

The department should ensure the accuracy of the supplemental drug rebates determined by a third-party processor by verifying the units dispensed to the state's medical assistance payment system and recalculating rebate amounts, or by requesting an audit of the processor.

Department Response #1

The department agrees with the recommendation. The department is in the process of finalizing language on an amendment to the contract with the processor. This amendment requires an independent SAS 70 audit be done annually on the procedures and processes that the third party processor uses to calculate and allocate supplemental rebates on the behalf of Minnesota.

Person Responsible: Jarvis Jackson

Estimated Completion Date: Current language has the audit completed no later than June 1st of each year with a draft copy of the report available to the State within 20 working days after completion of the fieldwork.

Audit Finding #2

The Department of Human Services did not adequately document certain eligibility criteria for two federal programs.

Audit Recommendation #2-1

The department should collect and maintain all documentation necessary to support its verification of the adoption assistance eligibility determinations.

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2005**

Department Response #2-1

The department agrees with the recommendation. The department has revised the forms certifying agencies use to complete eligibility determinations for adoption assistance. The revised forms ensure that the appropriate supporting information for the eligibility determination is submitted by the certifying agency and maintained by the department. Distribution of the forms will occur in May 2006 and corresponding training will be provided by the department to all agencies responsible for completing adoption assistance eligibility determinations. Before the department approves adoption assistance for a child, department staff reviewing the eligibility paperwork will ensure that all necessary documentation has been collected from the certifying agency. All documents that verify adoption assistance eligibility will be retained in the departmental adoption assistance case record.

Person Responsible: Erin Sullivan Sutton

Estimated Completion Date: June 1, 2006

Audit Recommendation #2-2

The department should improve its documentation of eligibility decisions for the State Children's Health Insurance Program.

Department Response #2-2

The department agrees with the recommendation. Several measures planned or in process of completion will address this recommendation:

- The Health Care Application is being revised to encourage applicants to furnish verifications of eligibility with their submitted application forms.
- The Health Care Programs Manual is being revised to improve ease of use and clarity, and will be a web-based tool for workers. This will roll out over the next year.
- Implementation of the HealthMatch automated eligibility system scheduled to start in 2007 will lead to greater documentation of eligibility decisions, as more information will be entered by workers as they process eligibility. HealthMatch is scheduled to be fully implemented by May 2008.

Person Responsible: Kathleen Henry

Estimated Completion Date: May 2008

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2005**

Audit Finding #3

The Department of Human Services did not accurately report federal spending in the state's financial reports.

Audit Recommendation #3

The department should improve controls over financial reporting by adequately training staff and verifying the accuracy and completeness of federal program schedules.

Department Response #3

The department agrees with the recommendation. The department will increase management review of the federal program schedules to assure that they are consistent with amounts reported in the state's financial statements. The department will work with the Department of Finance to improve the reporting of human service programs' financial statement accruals and reclassifications.

Person Responsible: Marty Cammack

Estimated Completion Date: October 31, 2006

Auditing Finding #4

The Department of Human Services has not reevaluated the monthly adoption assistance maintenance amounts since 1990.

Audit Recommendation #4

The department should seek clarification of the adoption assistance rule addressing the frequency of the maintenance subsidy adjustment and should amend the rule if necessary.

Department Response #4

The department agrees with the recommendation. The department will review the adoption assistance rule and propose amendments to the rule, as appropriate.

Person Responsible: Erin Sullivan Sutton

Estimated Completion Date: June 1, 2006

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2005**

Audit Finding #5

The Department of Human Services did not have adequate controls over some aspects of its indirect cost allocations.

Audit Recommendation #5-1

The department should reconcile total indirect costs to total allocated costs each quarter to ensure it included all costs and adjustments and that it actually allocated all costs to the individual programs.

Department Response #5-1

The department agrees with the recommendation. The reconciliation was inadvertently discontinued after a staff person's retirement. The department will resume reconciling total indirect costs to total allocated costs each quarter.

Person Responsible: Marty Cammack

Estimated Completion Date: June 30, 2006

Audit Recommendation #5-2

The department should review prior years' cost allocations and compare the Medical Assistance Program's allocated indirect costs to paid indirect costs to ensure the program paid the correct amount of indirect costs.

Department Response #5-2

The department agrees with the recommendation. The department will reconcile the Medical Assistance prior years' allocated indirect costs to payments made and make any necessary payment adjustments. The department will assure that the reconciliation continues on an on-going basis.

Person Responsible: Marty Cammack

Estimated Completion Date: June 30, 2006

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2005**

Audit Finding #6

The Department of Human Services did not request federal medical assistance reimbursements in a timely manner.

Audit Recommendation #6

The department should monitor cash balances in the federal medical assistance account and request reimbursements from the federal government in a timely manner.

Department Response #6

The department agrees with the recommendation. The department will reinforce instructions to accountants to monitor cash balances in the state's accounting system.

Person Responsible: Marty Cammack

Estimated Completion Date: March 31, 2006

Audit Finding #7

Department of Human Services' staff assigned to the Board on Aging did not accurately prepare three federal reports.

Audit Recommendation #7

The department should ensure the accuracy and completeness of federal aging program reports.

Department Response #7

The department agrees with the recommendation. We believe that the problems were one time errors and we will adjust the federal reports for the quarter ending March 31, 2006.

Person Responsible: Jim Varpness

Estimated Completion Date: March 31, 2006



OFFICE OF THE LEGISLATIVE AUDITOR
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Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Daniel Engstrom, Assistant County Administrator
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, 2005. The objectives of our work at Hennepin County were 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 State Children's Health Insurance (CFDA # 93.767), 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. As part of our work, we also determined the status of our prior year findings. Our fiscal year 2004 report (Legislative Audit Report 05-18) contained two findings addressed to Hennepin County. Both of those findings are repeated in this report. 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 written findings and recommendations as a result of our work at Hennepin County for fiscal year 2005. 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. PRIOR FINDING PARTIALLY RESOLVED: 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 State Children's Health Insurance, 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

Hennepin County

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 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.

Hennepin County has not implemented its corrective action plan to address FIAT issues. During fiscal year 2005, county management took some steps to heighten awareness of FIAT transactions. It created a desk guide listing appropriate FIAT codes, highlighted the appropriate use of FIATS in its case reviews, and addressed the topic at supervisory and staff meetings as promised. However, as of the end of fiscal year 2005, the county had not implemented its plan to perform monthly reviews of workers with high individual FIAT usage.

Recommendation

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

2. PRIOR FINDING NOT RESOLVED: Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.

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 and the Medical Assistance 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. The state does not meet timeliness requirements established by the federal government. Hennepin County is a significant contributor to that compliance concern. For the period May 1, 2004, through April 30, 2005, Hennepin County's resolution rate was 59 percent. The county's fiscal year 2004 resolution rate was 63 percent.

Hennepin County

Recommendation

- *Hennepin County should 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 16, 2006.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: July 20, 2005

Report Signed On: March 13, 2006



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

September 27, 2005

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

Dear Mr. Nobles,

Enclosed is Hennepin County's formal response to the audit findings for the year that ended June 30, 2005.

Finding #1

Prior finding partially resolved: Hennepin County did not monitor high-risk eligibility override transactions.

Corrective Action Plan for Finding #1

As stated in the finding, Hennepin County did implement all of the items in its corrective action plan with one exception – producing a usable FIAT report. This report is now available and is produced and distributed to managers for review on a quarterly basis.

In addition to the steps outlined in corrective action plan, Hennepin County arranged for Minnesota Department of Human Services staff to conduct individual training sessions during July 2005 for each of the eligibility teams in the county responsible for processing Medical Assistance cases. A point of emphasis in those training sessions was the appropriate use of FIAT.

Completion date of plan: The final item of the corrective action plan was completed by July 31, 2005.

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

Finding #2

Prior finding not resolved: Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.

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. In March 2005, responsibility for all of the adults area was added to this unit. We did discover that the Debt Establishment Unit had an incorrect understanding of the required timeframes for resolving discrepancies. This misunderstanding was resolved in July 2005.

Corrective Action Plan for Finding #2

Since the Debt Establishment Unit was made aware of the correct timeframes for resolving discrepancies in July 2005, there has been significant improvement in results. Our expectation is that the goal of resolving 80% of discrepancies within 45 days will be achieved for the period July 2005 through December 2005 and will be maintained at that level on an ongoing basis.

Completion date of plan: July 31, 2005.

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



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. 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, 2005. The objectives of our work at Ramsey County were 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 State Children's Health Insurance (CFDA # 93.767), 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. As part of our work, we also determined the status of our prior year findings. Our fiscal year 2004 report (Legislative Audit Report 05-18) contained two findings addressed to Ramsey County. Both of those findings are repeated in this report. 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 written findings and recommendations as a result of our work at Ramsey County for fiscal year 2005. 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. PRIOR FINDING NOT RESOLVED: Ramsey 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 State Children's Health Insurance, 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.

Ramsey County

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 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.

Ramsey County has not implemented its corrective action plan to address FIAT issues. 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. PRIOR FINDING NOT RESOLVED: Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.

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 and the Medical Assistance 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. The state does not meet timeliness requirements established by the federal government. Ramsey County is a significant contributor to that compliance concern. For the period May 1, 2004, through April 30, 2005, Ramsey County's resolution rate was 70.5 percent. The county's fiscal year 2004 resolution rate was 65 percent.

Recommendation

- *Ramsey County should resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

Ramsey County

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 16, 2006.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: July 13, 2005

Report Signed On: March 13, 2006



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

October 11, 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 in response to your letter of September 20, 2005 wherein you detail the results of your audit of Ramsey County's management of certain federal programs. In that limited audit you reported two findings:

1. Ramsey County did not monitor high-risk eligibility transaction.
2. Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.

As requested we will describe the actions we will take to address these issues and identify the person responsible for those actions.

1. Ramsey County did not monitor high-risk eligibility transaction.

The actions you refer to are FIAT actions in MAXIS. FIAT is a feature of the MAXIS system that allows for the override of a system generated case action. For some programs, some Medical programs, General Assistance, Group Residential Housing and Minnesota Supplemental Assistance, FIAT is the only method to generate and approve program results. The MFIP (TANF) and Food Support programs are the only programs within MAXIS that are significantly automated to generate results.

Ramsey County has developed a quarterly report of FIAT actions regarding the MFIP and Food Support programs. FIAT actions are identified by worker and supervisor, and each supervisor is given the results for their unit.

For our Adult Services programs the FIAT report is compared against the Report Active panel on MAXIS to see if MSA or GA is active. It is necessary to FIAT Food Support when there is GA or MSA, as the income is not automatically pulled over. The majority of the cases are this type of case. For example had 89 cases on the report. 78 had GA or MSA income. In one case FIAT was used to bring over the correct amount of Social Security. In the other 10 cases it appears it was not necessary to use FIAT but workers do so out of habit. Reminders have been sent to staff about using FIAT only when required.

FIAT is a systems issue. DHS recently held a meeting to discuss the use of FIAT and the FIAT report. Ramsey staff participated in this meeting and brought forward examples of situations that currently require the use of FIAT. We requested more specific codes for each situation (workers currently must use "10" for almost every situation) and that DHS try to make changes to the system to reduce the use of FIAT. A copy of the current codes and the case situations we submitted to DHS are attached.

Human Service Managers Shannon Kennedy and Nancy Cincotta are responsible for the continued monitoring of FIAT actions. Ms. Cincotta will also be participating in the DHS workgroup on FIAT.

2. Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.

Your recommendation is that Ramsey County meet the timeliness standard for the resolution of Income Eligibility Verification System (IEVS) matches. This standard is 80% of all matches resolved within 45 days of the match being made known to the agency.

Ramsey County shares this goal and has continued to make progress toward achieving it. In the Food Stamp Management Evaluation Review finding of May 14, 2005 it was noted that Ramsey County had a 74% timeliness rate and had made very good progress reducing the number of overdue matches in the last year. In order to seek continued improvement we have taken the following actions:

- A. Reformatted the monthly DHS report by worker and supervisor and used it to identify staff or units that need to improve the timeliness of their IEVS resolutions.
- B. Made IEVS training part of our new worker training.
- C. Hired a temporary worker to resolve the backlog of IEVS matches.

We are confident these actions and continued monitoring for compliance will get our IEVS resolution rate within federal guidelines. Human Service Managers Nancy Cincotta and Bao Vang will be responsible for the ongoing monitoring of our IEVS compliance efforts.

Thank you for the opportunity to respond to the audit. Ramsey County remains committed to operating our financial assistance programs in compliance with state and federal regulations and in a manner that ensures effective service to our clients.

Sincerely,

/s/ Monty Martin

Monty Martin, Human Services Director

/s/ Nancy Cincotta

Nancy Cincotta, Human Services Manager

/s/ Shannon Kennedy

Shannon Kennedy, Human Services Manager

Current FIAT Codes - Cash and Food Support

- 01 Appeal Pending
- 02 Appeal Dcsn
DiffFrom Pol
- 03 System Failure
- 04 Incorrect Bdgt
(GA)
- 05 Grant Divrsn
Project (MFIP)
- 06 SEID Project
(MFIP)
- 07 Prstrk HH Not
Cur HH (FS)
- 09 State Needs
Std Exceeded
- 10 Incomplete
Results
- 11 Experience
Works
- 12 Lump Sum
- 16 Expedited
Migrant, Month
Two (MFIP)
- 20 Sig Change
MFIP

FS FIAT EXAMPLES

- 1) When a client is eligible for a cash program (GA, RCA, MSA). Fiat is completed in order to add the PA Grant to the FS Budget.
Client is a SSI Recipient and is eligible for MSA of \$81. The FS are fiated to add the \$81 MSA to the budget.
- 2) When a client and another Household member are eligible for FS. The other Household member receives a cash grant on their own case.
The FS are fiated to include the GA Grant for the other household member.
- 3) When a client is receiving a benefit with an overpayment recoupment that is not due to adjudicated fraud.
Client receives SSI of \$579 with a \$57 recoupment for an overpayment. Client is eligible for FS. The STAT/UNEA Panel is loaded with the gross SSI of \$579. The FS are fiated to correct the UI amount of \$522 for the FS budget.
- 4) When a client has a representative payee that charges a fee.
Client receives SSI of \$579. Client has a rep-payee that charges a \$30 fee. The STAT/UNEA Panel is loaded with the gross SSI of \$579. The FS are fiated to correct the UI amount of \$549 for the FS budget.
- 5) When the FS needs to be prorated.
Client is at Regions Hospital and applies for FS on the first of the month. Client is discharged one week later. A STAT/FACI Panel is loaded. MAXIS shows eligibility from the first of the month. The FS are fiated to correct the eligibility begin date to the date of discharge.
- 6) When budget cycles are incorrect. When MAXIS has case in retrospective cycle and it should be prospective. (Or prospective and should be retrospective)
- 7) When client receives earned income that is excluded, such as title V of the Older Americans Act.
The STAT/JOBS Panel is loaded as wages. The FS are fiated to correct the EI to \$0 for the FS budget.

- 8) When the client has already received FS in another state.

Client reports that a new household member has moved here from Ohio and is requesting FS. The agency verifies the new household member has received FS already this month. The new member is added to case. The FS are fiated to fail for duplicate assistance for the new household member.

- 9) When a client requests that the FS program be closed.

Client calls on 9-22-05 to report moving out of state and requests the FS be closed effective 9-30-05. The FS for 10-05 are fiated to fail residence/close for client request.



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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, 2005. The objectives of our work at Saint Louis County were 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 State Children's Health Insurance (CFDA # 93.767), 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. As part of our work, we also determined the status of our prior year findings. Our fiscal year 2004 report (Legislative Audit Report 05-18) contained two findings addressed to Saint Louis County. We repeated one finding in this report. We consider the other finding, regarding cash benefit payments to vendors, to be resolved. 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 written finding and recommendation as a result of our work at Saint Louis County for fiscal year 2005. 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. PRIOR FINDING NOT RESOLVED: 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 State Children's Health Insurance, 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

Saint Louis County

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 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.

Saint Louis County has not implemented its corrective action plan to address FIAT issues. 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

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

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 16, 2006.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: July 27, 2005

Report Signed On: March 13, 2006



Saint Louis County

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

Ann M. Busche
Director

October 12, 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 or 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 2005 Legislative Audit

FIAT Eligibility Override Transactions:

St. Louis County has taken the following steps regarding FIAT review:

1. St. Louis County, through the directors' professional association, has solicited the MN Department of Human Services to create a more useful and concise FIAT report for use by counties. As a result of that solicitation, two work groups have been formed to meet that outcome.
2. St. Louis County has assigned two staff to attend each of these work group meetings: Shelley Saukko and Earl Beaudin.
3. Until the new FIAT reports are created, St. Louis County will immediately implement the following procedure:
 - One clerical staff person will be assigned to go through the current FIAT Report monthly, highlighting specific codes that need to be reviewed and crossing out those FIATs which are automatic or outside of financial worker discretion.
 - This list will be copied and distributed to each supervisor.
 - Supervisors will review this list, read case notes, and/or discuss the case with assigned workers, as appropriate.