

Financial Audit Division Report**Department of Human Services –
State Operated Services****July 1, 2004, through June 30, 2007**

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.

To obtain a copy of this document in an accessible format (electronic ASCII text, Braille, large print, or audio) please call 651-296-1235. People with hearing or speech disabilities may call us through Minnesota Relay by dialing 7-1-1 or 1-800-627-3529.

All OLA reports are available at our web site: <http://www.auditor.leg.state.mn.us>

If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

Financial Audit Division Report**Department of Human Services –
State Operated Services****July 1, 2004, through June 30, 2007****December 21, 2007****07-35**

FINANCIAL AUDIT DIVISION

Centennial Building – Suite 140

658 Cedar Street – Saint Paul, MN 55155

Telephone: 651-296-4708 • Fax: 651-296-4712

E-mail: auditor@state.mn.us • Web site: <http://www.auditor.leg.state.mn.us>

Through Minnesota Relay: 1-800-627-3529 or 7-1-1

Department of Human Services – State Operated Services

This page intentionally left blank.



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

Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Cal Ludeman, Commissioner
Minnesota Department of Human Services

We have audited selected functions performed by the Department of Human Services' State Operated Services section for the period July 1, 2004, through June 30, 2007. Our audit scope was limited to cost of care billings and collections and payroll expenditures. Our objectives focused on a review of internal controls over these financial activities within the State Operated Services section and their compliance with applicable legal provisions. We emphasize that this has not been a comprehensive audit of the financial operations of the Department of Human Services or the State Operated Services section.

The enclosed Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions for each area are contained in the individual chapters of this report.

We would like to thank the staff from the Department of Human Services' State Operated Services section for their cooperation and assistance during this audit.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: August 31, 2007

Report Signed On: December 18, 2007

Department of Human Services – State Operated Services

Table of Contents

	Page
Report Summary	1
Chapter 1. Introduction	3
Chapter 2. Cost of Care Billings and Collections	7
Chapter 3. Payroll	13
Status of Prior Audit Issues	17
Department of Human Services' Response	19

Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Michael Hassing, CPA, CISA	Audit Manager
Laura Peterson, CPA	Auditor-In-Charge
Steven Johnson, CPA	Auditor
Jennifer Cooper	Auditor
Bridgette Leonard	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Department of Human Services at an exit conference held on December 10, 2007:

Mike Tessneer	SOS – Chief Executive Officer
Frances Bly	SOS – Chief Operating Officer
Shirley Jacobson	SOS – Chief Financial Officer
Lori Zook	SOS – Controller
Kim Cardinal	SOS – Accounts Receivable Supervisor
David Ehrhardt	Internal Audit Director

Report Summary

Conclusion:

Financial controls for the functions in our audit scope were generally adequate, and the department's State Operated Services section complied with most of the legal requirements we tested. However, our report contains five findings related to inadequate controls or noncompliance.

Key Findings:

- State Operated Services did not adequately pursue its outstanding accounts receivable. As of June 30, 2007, it had \$28.9 million of receivables over one year old. ([Finding 1, page 10](#))
- State Operated Services allowed certain employees to perform incompatible duties relating to payroll and human resources. ([Finding 3, page 15](#))

Audit Scope:

Period Audited: July 1, 2004, through June 30, 2007

Activities Audited:

- Cost of care billings and collections for adult mental health, child and adolescent behavioral health, and traumatic brain injury clients.
- Payroll

Agency Background:

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

Department of Human Services – State Operated Services

This page intentionally left blank.

Department of Human Services – State Operated Services

Chapter 1. Introduction

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

State Operated Services has been evolving since 1974 when the U.S. District Court called for significant reductions in the population of people with developmental disabilities in the state hospital system. Frequently referred to as the Welsch decision, the Department of Human Services made the commitment to restructure the regional treatment center system and move people with developmental disabilities into the community. In the late 1990s, the Legislature authorized pilot projects referred to as the adult mental health initiatives. These mental health initiatives reassigned regional treatment center staff to work in the community with county staff and other professionals to develop community-based health care services. These services helped people with mental illness avoid hospitalization and remain in their communities.

Through 2007, the department has continued transitioning from the past institutional models of providing care and treatment to modern treatment models where care is provided in community-based programs, and services are provided closer to the client's family and friends. Regional planning work groups had been working with the section to identify necessary services and design a broad array of adult mental health treatment options in local communities, including community-based behavioral health hospitals and crisis centers.

In 2006, State Operated Services began providing short-term, acute inpatient psychiatric care for adults in community-based, 16-bed inpatient psychiatric hospitals in Greater Minnesota. Because of their smaller size, short-term nature, and treatment methods, these hospitals are distinctly different from the regional treatment centers. The hospitals operate 24 hours a day, 7 days per week, and 365 days throughout the year. Each hospital employs approximately 35 staff, including mental health professionals specializing in psychiatry, nursing, psychology, and social work. Referral to community behavioral health hospitals may be made by county social service agencies, the courts, local mental health providers, community hospitals, and private mental health practitioners. The community hospitals use state-of-the art evidence-based practices as the method for delivering care and treatment to the individuals it services.

During fiscal year 2007, the community behavioral health hospitals provided care and treatment to 1,167 individual clients. Since many of the community hospitals were just beginning operations during fiscal year 2007, future analysis will yield further shifts of individuals receiving services in the community based hospitals as opposed to the adult mental health

Department of Human Services – State Operated Services

programs located at the regional treatment centers, which provided long-term residential care for 1,049 clients.

Figure 1-1 (on the following page) shows a map of the community-based behavioral health hospitals and crisis centers within Minnesota.

The department has centralized the administrative and business operations of State Operated Services into regional offices and business units based primarily on the types of services provided.

Audit Approach

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the agency's internal controls relevant to the audit objectives. We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission,¹ as our criteria to evaluate an agency's internal controls. The standards also require that we plan the audit to provide reasonable assurance that the agency complied with financial-related legal provisions that are significant to the audit. In determining the agency's compliance with financial-related legal provisions, we considered requirements of laws, regulations, and contract agreements.

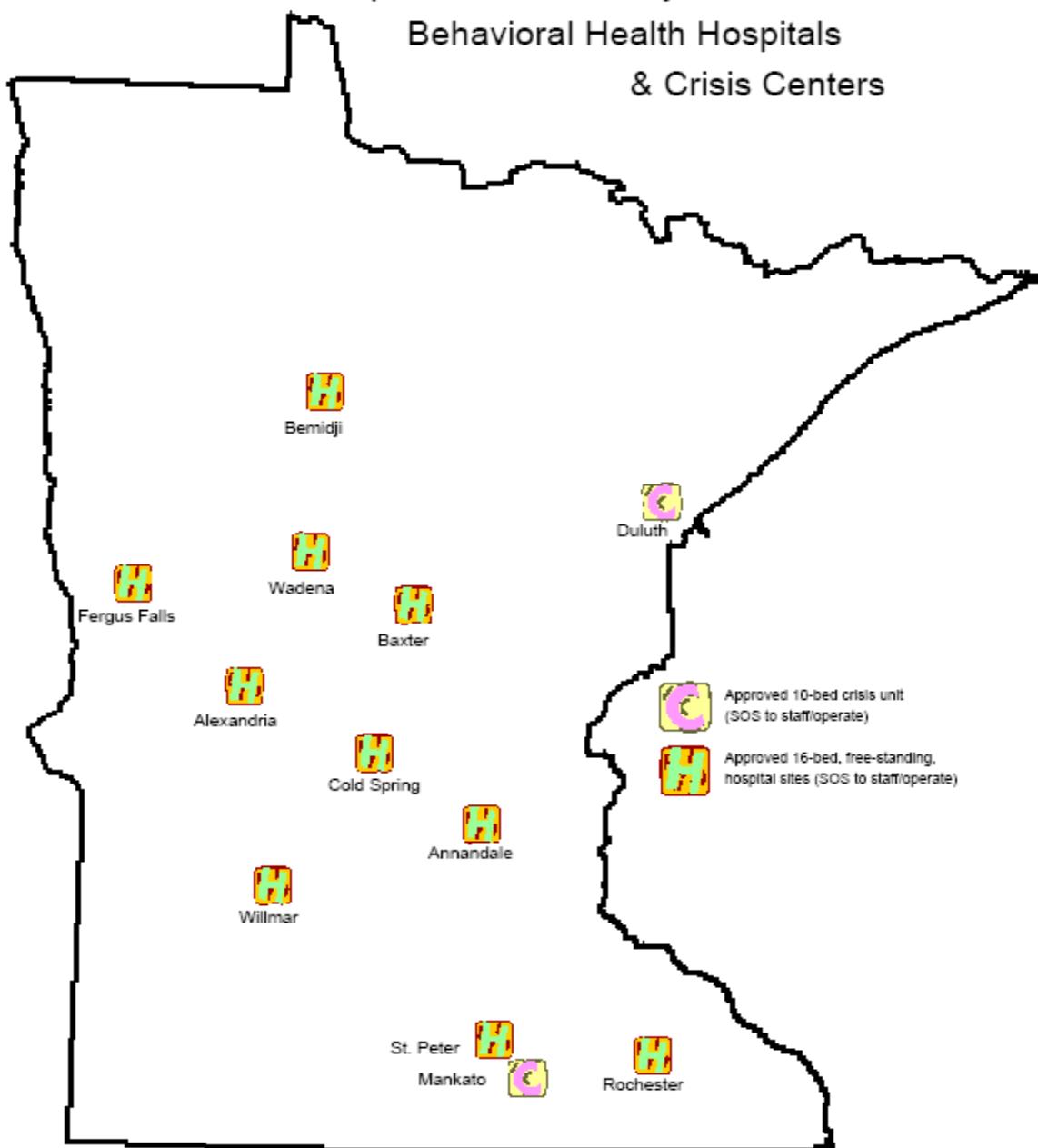
Our audit included a review of selected financial activities of State Operated Services, focusing on cost of care billings and collections and payroll expenditures. The following report chapters discuss our review of internal controls and compliance with significant laws and regulations for these areas.

¹ The Treadway Commission and its Committee of Sponsoring Organizations was established in the mid-1980s by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

Department of Human Services – State Operated Services

Figure 1-1

State-Operated Community-Based Behavioral Health Hospitals & Crisis Centers



Community Hospitals.odt
9/06

Source: Department of Human Services - State Operated Services website.

Department of Human Services – State Operated Services

This page intentionally left blank.

Chapter 2. Cost of Care Billings and Collections

Chapter Conclusions

State Operated Services did not have an adequate process to collect outstanding cost of care accounts receivable. It also did not adequately review overdue accounts receivable.

State Operated Services' internal controls provided reasonable assurance that billings and receipts for cost of care services for adult and child mental illness clients were correctly recorded in the accounting records. These controls also provided reasonable assurance that State Operated Services incorporated the correct rates and census data in the cost of care billing of these clients. For the items tested, State Operated Services generally complied with significant finance-related legal provisions covering cost of care. However, State Operated Services did not always provide determination orders as required by state rules.

Audit Objectives

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

- Did State Operated Service's internal controls provide reasonable assurance that it:
 - ◊ properly recorded billings and receipts in the accounting records?
 - ◊ accurately incorporated rates and census data into the billings of clients for cost of care?
 - ◊ followed up on outstanding accounts receivable in order to maximize collections?
 - ◊ safeguarded cost of care payments from misappropriation?
- For the items tested, did State Operated Services comply, in all material respects, with the significant finance-related legal provisions for the billing of cost of care?

We limited our testing to the cost of care billings and collections for adult mental health, child and adolescence behavioral services, and traumatic brain injury services during the audit period.

Department of Human Services – State Operated Services

Background

State Operated Services is responsible for providing services for persons with mental illness, developmental disabilities, chemical dependency, and traumatic brain injury. Cost of care is the major source of revenue for State Operated Services. The section is responsible for billing and collecting for client cost of care. Prior to 2003, each regional treatment center operated its own distinct business office and was responsible for billing the cost of care and services it provided. During 2003, State Operated Services centralized its billing and other administrative functions. Table 2-1 summarizes the net revenues (billings less uncollectible accounts) for the various services operated by the State Operated Services.

Table 2-1
State Operated Services
Net Cost of Care Revenues

<u>Cost of Care Services</u>	Fiscal Year	Fiscal Year	Fiscal Year
	2005	2006	2007
	Net Revenues	Net Revenues	Net Revenues
Developmentally Disabled	\$ 66,383,200	\$ 71,428,320	\$ 77,895,899
Adult Mental Health (Mentally Ill)	33,772,324	37,660,673	45,527,602
Chemically Dependent	19,270,364	18,465,636	19,485,590
Child and Adolescent Behavior	13,977,245	13,090,693	12,779,230
Traumatic Brain Injury	4,149,360	4,231,966	4,492,667
Clinics	<u>2,055,264</u>	<u>1,775,044</u>	<u>2,197,780</u>
Total	<u>\$139,607,757</u>	<u>\$146,652,332</u>	<u>\$162,378,768</u>

Source: State Operated Services' financial statements.

With the centralization of administrative services, the Saint Peter Regional Treatment Center's billing office assumed the duties for billing for all adult mental health services, and the Saint Paul office bills for all services provided to individuals with developmental disabilities and for all chemical dependency services.

Clients admitted to a regional treatment center, community-based hospital, or group home² went through an intake process similar to any hospital patient. Facility staff obtained all demographic and health history information upon admission, along with any financial considerations for billing of cost of care and other services. They entered the intake information directly into the State Operated Services' electronic health record and billing system.

Upon admission, the treatment facility determined who was financially responsible for the client. Financially responsible parties could include the client, private insurance companies, counties, Medicaid/Medicare (the state's Medical Assistance Program), MinnesotaCare, or the state's Consolidated Chemical Dependency Treatment Fund. On a monthly basis, State Operated Services bills each financially responsible party for the client's cost of care. State Operated Services posts the cost of care payments received to individual client records in the electronic

² Most clients are placed in a facility by the county, a family member, or through court order commitment pursuant to [Minnesota Statutes](#) 2007, 253B.

Department of Human Services – State Operated Services

health record and billing system. The system also prepares a report, for review by State Operated Services management, which sorts accounts receivable by how long they have been outstanding.

Adult Mental Health Services

During fiscal years 2006 and 2007, State Operated Services provided adult mental health services at several regional treatment centers located throughout the state. General Fund appropriations financed these services. However, the section recovered part of the cost of the program through collection of cost of care revenues from clients and other financially responsible parties. The department calculated the cost of care rates annually. The calculation was based on all direct and indirect costs for operating the treatment centers according to *Minnesota Statutes* 2007, 246.50, subd. 5. The cost of care rate was then translated into a daily per diem charge. Per diem charges varied widely between the facilities, primarily because of variances in number of clients served, number of staffed or licensed beds, and direct and indirect costs associated with the facility. Some facilities had high per diem rates because of low census numbers due to the department's transition to community-based hospitals for mental health services. Table 2-2 shows the per diem rates for adult mental health by facility for fiscal years 2006 and 2007.

Table 2-2
Selected Adult Mental Health Per Diem Rates
Fiscal Years 2006 and 2007

Facility	2006	2007
Anoka Metro	\$ 497	\$ 618
Anoka Transition	160	248
Brainerd	915	1,605
Eveleth	446	528
Fergus Falls	1,181	1,829
Forensic Transition	182	208
METO	798	827
MN Sex Offender Program	281	387
MN Security Hospital	533	588
Willmar	953	1,068
Community Behavioral Health Hospitals	NA	850

Note: In fiscal year 2008, the department no longer provides adult mental health services at Fergus Falls or Brainerd facilities.

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

Child and Adolescent Behavioral Health Services

Child and adolescent behavioral health services provided an array of services and treatment to children and adolescents with serious emotional disturbances. These services ranged from in-home crisis intervention to inpatient hospital level of care. Though State Operated Services staff provided most of these child behavioral services, it sometimes partnered with other caregivers or contracted with private care providers. Statewide inpatient hospitalization is provided at

Department of Human Services – State Operated Services

Brainerd and Willmar; both facilities are licensed by the Minnesota Department of Health as psychiatric hospitals.

Child and adolescent behavioral health services is an enterprise program, which means that State Operated Services needed to recover the costs of operations by billing for the services it provided. For inpatient services, staff at each facility used a daily midnight census to determine a client's number of days served. The facility multiplied this number of days times the applicable per diem rate to determine the amount billed. Facilities used different per diem rates for outpatient services.

The State Operated Services' patient accounting office sent out bills once a month. Many clients were eligible for the state's Medical Assistance Program, which, depending on the client's needs, paid for the client's room and board and supported living skills. The client's share of the total cost of care is adjusted for any payments received from social security, supplemental security insurance, or private insurance.

Brain Injury Rehabilitation Services

The Minnesota neurorehabilitation services, located on the Brainerd regional human services campus, provides intensive rehabilitation services and outreach to individuals with acquired or traumatic brain injury who have challenging behaviors. The Minnesota Department of Health has licensed the Brainerd facility as a rehabilitation hospital.

The traumatic brain injury services are also an enterprise service. Thus, State Operated Services must recover the costs of operations by billing for services provided. Staff at the facility completed a daily midnight census as the basis for the client's number of days served for billing purposes. The facility determines the per diem rate annually.

The State Operated Services patient accounting office sends out bills once a month. Many clients are eligible for medical assistance, which pays the client's room and board or supported living skills

Current Findings and Recommendations

1. Prior Finding Not Resolved: State Operated Services did not adequately resolve outstanding accounts receivable balances.

State Operated Services has not adequately pursued its large accounts receivable balances. Although the electronic health record and billing system provides a report that "aged" the accounts receivable balances by how long they had been outstanding and the section reviewed the report, there is no systematic plan or procedure to timely make collection determinations. Table 2-3 provides an aged list of the outstanding accounts receivable balances as of June 30, 2007.

Department of Human Services – State Operated Services

Table 2-3
State Operated Services
Outstanding Accounts Receivable Balances
As of June 30, 2007 (in millions)

Balance	DAYS PAST DUE							<u>TOTAL</u>
	<u>0 days</u>	<u>30 days</u>	<u>60 days</u>	<u>90 days</u>	<u>120 days</u>	<u>180 days</u>	<u>365+ days</u>	
Balance	\$30.2	\$3.6	\$3.6	\$3.5	\$6.8	\$8.3	\$28.9	\$84.9

Source: State Operated Services' aged accounts receivable report as of June 30, 2007.

State Operated Services is not required to follow the state's criteria for accounts receivable collections.³ However, they are required to follow the department's internal accounts receivable policy.⁴ The department's policy instructs program areas to use systematic referral timeframes to transfer past due accounts to the financial operations collection division within the department. The same policy also states that, "Prompt referral of doubtful accounts assures that payment in full is more likely to be received than by allowing time to pass...."

State Operated Services has not followed the department's internal accounts receivable policy. As of June 2007, in a sample of 11 items over 365 days old, nine items totaling almost \$205,000 did not have determinations made for collection purposes or formal write-off of the amount owed. The remaining two items were in a deferred status, meaning the department has established a legal claim to the client's future ability to pay for these debts.

By not sending outstanding items to collections, State Operated Services reduces the likelihood of receiving any payment on these accounts. Although State Operated Services submits overdue accounts to collections, it does not submit them systematically or on a scheduled timeframe as required by the internal policy.

Recommendation

- *State Operated Services should make timely determinations of outstanding accounts receivable balances and should work with the Department of Human Services' Financial Management Collection Division to establish systematic transfer of past due accounts to the Financial Management Collections Division.*

2. State Operated Services did not always provide clients and responsible parties with determination orders.

State Operated Services did not provide each client or the client's guardian, conservator, or representative payee with a determination order. Eight of 12 items tested did not have a

³ State Operated Services has a waiver from *Minnesota Statute* 2007, 16D.

⁴ DHS policies 6.1.1R and 6.1.2R.

Department of Human Services – State Operated Services

determination order on file. *Minnesota Rules*⁵ required the use of a determination order to inform the client or responsible party about per diem cost of care, the amount they are legally required to pay for services, and that they have a right to a review and an appeal.

Recommendation

- *State Operated Services should ensure that each client and related party receives a determination order in compliance with Minnesota Rules.*

⁵ *Minnesota Rules* 2007, 9515.1900.

Chapter 3. Payroll

Chapter Conclusions

State Operated Services' internal controls provided reasonable assurance that it accurately compensated state operated services employees and properly recorded payroll transactions in the state's personnel and payroll system. For the items tested, State Operated Services complied with significant finance-related legal provisions contained in bargaining unit contracts and personnel plans.

However, State Operated Services did not have adequate separation of duties between its payroll and personnel functions. Additionally, the payroll units sometimes processed unsigned timesheets and did not review required reports for employees using the state's electronic time reporting process.

Audit Objectives

Our review of State Operated Service's payroll focused on the following questions:

- Did State Operated Services' internal controls provide reasonable assurance that it accurately compensated State Operated Services' employees, and it properly recorded payroll transactions in the state's personnel and payroll system and the state's accounting system?
- For the items tested, did State Operated Services comply with the significant finance-related legal provisions contained in bargaining unit contracts and personnel plans?

Background

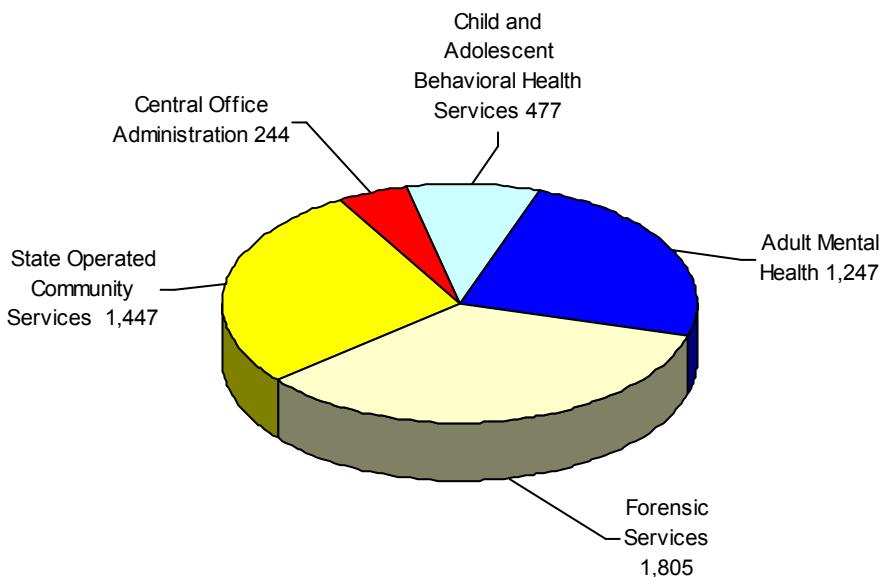
State Operate Services spent approximately \$790 million on payroll expenditures during the audit period. Payroll represented approximately 80 percent of the section's expenditures. As of June 2007, State Operated Services employed 5,220 employees in a variety of bargaining units and compensation plans. The department compensated employees through the state's payroll system⁶ on a biweekly basis. By using this system, the department took advantage of controls and processes that were designed to ensure that the section accurately processed and recorded its payroll in the state's accounting system and protected the integrity of payroll and personnel data.

⁶ The state's personnel and payroll system is the State Employee Management System.

Department of Human Services – State Operated Services

State Operated Services had five centralized payroll and human resources business units: child and adolescent behavioral health services, adult mental health (including community-based health hospitals), state operated community services (group homes), forensic services, and central administration, located in Willmar, Anoka, Roseville, Moose Lake, and Saint Paul. Each had its own human resources and payroll processes. Figure 3-1 shows the allocation of State Operated Services' employees by business unit.

Figure 3-1
State Operated Services' Employees by Business Unit
as of June 2007



Source: Department of Human Services' report of employees by business unit, as of June 1, 2007.

Within these business units, State Operated Services used different types of payroll processes. Most business units used traditional paper timesheets. A small portion of employees used the state's electronic time reporting system. This system, self service time entry, allowed employees to enter their hours online and have those recorded hours forwarded to their supervisor for review and authorization. The electronically recorded hours fed into the payroll system and were the basis for employee compensation. The Anoka facility recently implemented another time reporting system called time trak. This time reporting system kept track of daily hours worked by employees, requested days off, and had the capability for future scheduling. Staff access this time clock system through their identification badge, telephone, computer, or biometric reading. This system also allowed an electronic feed of hours into the state's payroll system.

State Operated Services had the following weaknesses in its human resources and payroll processes.

Department of Human Services – State Operated Services

Current Findings and Recommendations

3. Prior Finding Not Resolved: State Operated Services did not establish adequate separation of duties within its human resources and payroll functions.

State Operated Services did not limit employees' incompatible access to the state's payroll and personnel system. Many employees at multiple locations had incompatible access that allowed them to initiate, change, and process payroll and personnel data in the system without intervention. Some of the employees served as a payroll backup to supplement a small staff and only needed access on a limited basis.

State policy⁷ requires agencies to eliminate this incompatible access or implement mitigating controls. Three locations had sufficient justification for the employees' incompatible access and had mitigating audit procedures in place. However, six other locations did not have documented justifications for 17 employees with incompatible accesses or mitigating controls.

Good internal controls require the separation of incompatible duties or the design and implementation of other controls to detect inappropriate transactions if they occur. Granting incompatible access to employees increases the risk that the employees could improperly modify transactions without detection.

Recommendation

- *The department should segregate incompatible payroll and human resources duties by limiting access to the personnel and payroll system to the minimum level needed by State Operated Services employees to perform their job duties. If access cannot be limited, State Operated Services should design, implement, and monitor mitigating controls.*

4. State Operated Services processed timesheets that were not signed by employees or supervisors.

Two of the five State Operated Services' payroll business units – adult mental health (Anoka) and state operated community services (Roseville) - processed unsigned employee timesheets. The Department of Finance's policy⁸ requires employees and supervisors to sign timesheets as a validation of the accuracy and completeness of the reported hours. By processing unsigned timesheets, State Operated Services increased the risk that errors or irregularities in payroll expenditures could go undetected. The payroll units processed the unsigned timesheets from emailed copies and did not verify that originals with the required signatures existed.

⁷ SEMA4 Security Policy HR045.

⁸ Department of Finance policy PAY0016.

Department of Human Services – State Operated Services

Recommendation

- *The State Operated Services' payroll units should ensure that all timesheets have been signed by both the employee and the employee's supervisor before processing or have a procedure to follow up on any unsigned timesheets.*

5. Three payroll offices are not reviewing a key electronic time entry error report.

Three payroll business units - Minnesota state operated community services, forensics, and child and adolescent behavioral health services - did not review a report that details hours reported through the state's electronic time reporting system that did not follow the ideal time entry and review process. The self-service time entry audit report identifies those payroll entries where the employee did not submit the hours or the designated primary supervisor did not authorize the timesheet for payment. State policy⁹ requires that agencies review this report to verify that the employee and supervisor have acknowledged that the submitted self service time entry is accurate and complete. By processing the self service time entry without reviewing the report, the payroll units increased the risk that errors or irregularities within the payroll expenditures may go undetected.

Recommendation

- *The State Operated Services' payroll units should review the self-service time entry audit reports on a regular basis and document the resolution of exceptions noted.*

⁹ Department of Finance policy PAY0017.

Department of Human Services – State Operated Services

Status of Prior Audit Issues As of August 31, 2007

Most Recent Audits

March 23, 2007, Legislative Audit Report 07-08 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, 2006. The report contained six findings directed to the department. We did not follow up on these findings as a part of the current audit.

January 2007, Program Evaluation Report on Human Services Administration reviewed the administrative framework for Minnesota's large and complex human services system. The system – which spends several billion dollars each year – relies on close coordination between the state's Department of Human Services and Minnesota's 87 counties. The evaluation determined that the state-county partnership has strengths but also significant challenges. Some of the challenges are that human services access, cost, and outcomes vary significantly around the state. In addition, the complexity in laws and administrative requirements has made administration of services burdensome, especially for small counties. The report contained several findings and recommendations for the department, counties, and the Legislature. We did not follow up on these findings as a part of the current audit.

September 24, 2004, Legislative Audit Report 04-40 examined selected areas of the Department of Human Services State Operated Services for the period July 1, 2002, through December 31, 2003. The audit scope included cost of care billings and collections, payroll, and other selected administrative expenditures. The report contained four audit findings. Two of those findings, relating to the need to monitor and resolve accounts receivable balances and to separate incompatible payroll duties, are repeated in the current audit report (See findings 1 and 3). The other two findings were resolved.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

Department of Human Services – State Operated Services

This page intentionally left blank.



Minnesota Department of **Human Services** _____

December 19, 2007

James R. Nobles, Legislative Auditor
Office of the Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The enclosed material is the Department of Human Services response to the findings and recommendations included in the draft audit report of the Department of Human Services - State Operated Services conducted by your office. 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.

Sincerely,

/s/ Cal R. Ludeman

Cal R. Ludeman
Commissioner

Enclosure

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

Audit Finding #1

Prior Finding Not Resolved: State Operated Services did not adequately resolve outstanding accounts receivable balances.

Audit Recommendation #1

State Operated Services should make timely determinations of outstanding accounts receivable balances and should work with the Department of Human Services' Financial Management Collection Division to establish systematic transfer of past due accounts to the Financial Management Collections Division.

Department Response #1

State Operated Services continues to work all balances 365+. Payment cycles can be extremely lengthy; in fact, two of the claims selected during audit have been paid in full subsequent to the completion of the audit. State Operated Services has reduced the items 365+ from \$28.9 million to \$26.3 million as of November 30, 2007. In addition, we have been working over the past two years on an electronic transfer of past due self-pay accounts to the financial operations collection division within the department to enhance the collection process. This process is scheduled to begin on January 1, 2008.

Person Responsible: Shirley Jacobson

Estimated Completion Date: January, 2008

Audit Finding #2

State Operated Services did not always provide clients and responsible parties with determination orders.

Audit Recommendation #2

State Operated Services should ensure that each client and related party receives a determination order in compliance with Minnesota Rules.

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

Department Response #2

State Operated Services bills all third party payors prior to billing the patient. Under [MN Statute](#) Section 62Q.535, health plans that provide coverage for mental health services must cover or provide mental health services ordered by a court of competent jurisdiction. The health plan company shall be financially liable for the evaluation and care included in the court-ordered individual treatment plan for the client if the client has mental health care benefits. In three of the cases cited, the bill was completely satisfied by third party payors and there was no liability to the client. As the determination order is a communication between the Commissioner and the client, regarding personal liability, there was no need to complete the determination order. The cost of care statute has not been updated to reflect this change in billing order. State Operated Services will put forth a request for a legislative update to the cost of care statute in the next legislative session to modify the language for determination orders.

In the other five cases, financial statements had been received and there were no assets, therefore there was no current patient liability and the entire balance was deferred. While the letter would have stated that the patient had no current liability, it should have been completed. Training has been done for all staff to review this procedure.

Person Responsible: Shirley Jacobson

Estimated Completion Date: May, 2008

Audit Finding #3

Prior Finding Not Resolved: State Operated Services did not establish adequate separation of duties within its human resources and payroll functions.

Audit Recommendations #3

The department should segregate incompatible payroll and human resources duties by limiting access to the personnel and payroll system to the minimum level needed by State Operated Services employees to perform their job duties. If access cannot be limited, State Operated Services should design, implement, and monitor mitigating controls.

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

Department Response #3

The department agrees with the recommendation. The department's Human Resource Division will be meeting with State Operated Services to develop a correction plan to eliminate this issue.

Person Responsible: Craig Johnson

Estimated Completion Date: May 2008

Auditing Finding #4

State Operated Services processed timesheets that were not signed by employees or supervisors.

Audit Recommendation #4

The State Operated Services' payroll units should ensure that all timesheets have been signed by both the employee and the employee's supervisor before processing or have a procedure to follow up on any unsigned timesheets.

Department Response #4

The department agrees with the recommendation. We will determine the reasons for the lack of signed timesheets and then make the appropriate changes to our operating procedures to ensure that timesheets are signed or that unsigned hours are verified.

Person Responsible: Fran Bly

Estimated Completion Date: March 2008

Audit Finding #5

Three payroll offices are not reviewing a key electronic time entry error report.

Audit Recommendation #5

The State Operated Services' payroll units should review the self-service time entry audit reports on a regular basis and document the resolution of exceptions noted.

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

Department Response #5

The department agrees with the recommendation and will work with the three payroll business units to make sure that they are reviewing and verifying submitted hours.

Person Responsible: Fran Bly

Estimated Completion Date: March 2008