



**FINANCIAL AUDIT DIVISION REPORT**

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**Department of  
Human Services**

**Federal Compliance Audit**

**Year Ended June 30, 2009**

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**March 18, 2010**

**Report 10-11**

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The 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 has a staff of 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.

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 18, 2010

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Cal R. Ludeman, Commissioner  
Minnesota Department of Human Services

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Human Services during fiscal year 2009. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Human Services.

We discussed the results of the audit with the department's staff at an exit conference on March 8, 2010. The audit was conducted by Amy Jorgenson, CPA, (Audit Manager), Susan Kachelmeyer, CPA, CISA (Auditor-in-Charge), and David Westlund, CPA (Lead Worker). They were assisted by the following auditors: Tyler Billig, Tracia Gimbut, Bridgette Leonard, Chau Nguyen, Kevin Schoenrock, Adam Spooner, Paul Thompson, and Shanda Wilhelmy.

This report is intended for the information and use 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 18, 2010.

We received the full cooperation of the department's staff while performing this audit.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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# Report Summary

## Conclusion

The Minnesota Department of Human Services generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the federal programs we audited for fiscal year 2009. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section.

## Key Findings

- Prior Finding Partially Resolved: The Department of Human Services did not identify, analyze, and document its internal controls related to business operations and the schedules of federal expenditures. ([Finding 1, page 5](#))
- The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate recipient eligibility determinations for four major federal programs. ([Finding 2, page 6](#))
- Prior Finding Not Resolved: The Department of Human Services did not adequately protect not public data on individuals. ([Finding 3, page 8](#))
- The Department of Human Services had weaknesses in its administration of the department's Cost Allocation Plan for federal assistance program expenditures. ([Finding 4, page 9](#))
- The Department of Human Services did not accurately report financial activity for certain federal programs ([Finding 5, page 10](#))

## Audit Scope

Programs material to the State of Minnesota's federal program compliance for fiscal year 2009 at the Department of Human Services.

### Selected Audit Areas:

- Food and Nutrition Services Cluster
  - Supplemental Nutrition Assistance Program and Supplemental Nutrition Assistance Program Administration (CFDA 10.551/10.561 and 10.551A/10.561A)
  - Temporary Assistance for Needy Families (CFDA 93.558)
  - Child Support Enforcement (CFDA 93.563 and 93.563A)
  - Child Care Cluster

- Child Care and Development Block Grant (CFDA 93.575)
- Child Care Mandatory and Matching Fund (CFDA 93.596)
- Foster Care – Title IV-E (CFDA 93.658 and 93.658A)
- Social Services Block Grant (CFDA 93.667)
- Children’s Health Insurance Program (CFDA 93.767)
- Medicaid Cluster
  - State Medicaid Fraud Control Unit (CFDA 93.775)
  - State Health Care Providers Survey (CFDA 93.777)
  - Medical Assistance Program (CFDA 93.778 and 93.778A)

# Department of Human Services

## Federal Program Overview

The Department of Human Services administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.<sup>1</sup> Table 1 identifies these programs.

**Table 1**  
**Major Federal Programs**  
**Administered by the Department of Human Services**  
**Fiscal Year 2009**

<u>CFDA<sup>1</sup></u>	<u>Program Name</u>	<u>Expenditures</u>
<u>Food and Nutrition Services Cluster<sup>2</sup></u>		
10.551	Supplemental Nutrition Assistance Program	\$ 417,740,024
10.551A	Supplemental Nutrition Assistance Program ARRA <sup>3</sup>	\$ 18,337,048
10.561	Supplemental Nutrition Assistance Administration	\$ 55,004,123
10.561A	Supplemental Nutrition Assistance Administration ARRA	\$ 1,386,639
93.558	Temporary Assistance for Needy Families	\$ 259,774,390
93.563	Child Support Enforcement	\$ 93,199,140
93.563 A	Child Support Enforcement ARRA	\$ 4,154,849
<u>Child Care Cluster</u>		
93.575	Child Care and Development Block Grant	\$ 54,006,957
93.596	Child Care Mandatory and Matching Fund	\$ 46,918,753
93.658	Foster Care – Title IV-E	\$ 49,891,901
93.658A	Foster Care – Title IV-E ARRA	\$ 1,453,931
93.667	Social Services Block Grant	\$ 33,754,606
93.767	Children's Health Insurance Program	\$ 52,007,346
<u>Medicaid Cluster</u>		
93.775	State Medicaid Fraud Control Unit <sup>4</sup>	\$ 881,702
93.777	State Health Care Providers Survey	\$ 4,786,768
93.778	Medical Assistance Program	\$3,812,402,967
93.778A	Medical Assistance Program ARRA	\$ 616,654,700

<sup>1</sup>The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

<sup>2</sup>A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

<sup>3</sup>For transparency purposes, the Office of Management and Budget required separate reporting of American Recovery and Reinvestment Act (ARRA) funds. All CFDA numbers followed by an "A" are ARRA funds.

<sup>4</sup>The Minnesota Office of the Attorney General administered the State Medicaid Fraud Control Unit.

Source: Minnesota Accounting and Procurement System.

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<sup>1</sup> We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2009 exceeded \$30.1 million.

## Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Human Services complied with federal program requirements in its administration of these federal programs for fiscal year 2009. This audit is part of our broader federal single audit 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 federal programs.<sup>2</sup> In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

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 of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

## Conclusion

The Department of Human Services generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2009. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

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<sup>2</sup> The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2009, on the State of Minnesota's basic financial statements for the year ended June 30, 2009. In accordance with *Government Auditing Standards*, we also issued our report 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. (Office of the Legislative Auditor's Financial Audit Division [Report 10-01, Report on Internal Control Over Financial Reporting](#), issued February 11, 2010.) This report included control deficiencies related to the Department of Human Services.

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# Findings and Recommendations

**Prior Finding Partially Resolved:<sup>3</sup> The Department of Human Services did not identify, analyze, and document its internal controls related to business operations and the schedules of federal expenditures.**

The Department of Human Services did not have a comprehensive risk assessment regarding its internal controls over compliance with federal single audit requirements.<sup>4</sup> A comprehensive internal control structure is critical to the preparation of accurate Schedules of Expenditures of Federal Awards and safeguarding of federal resources. The department had an increased likelihood of a control deficiency if it did not clearly communicate to all staff its risks, control activities, and monitoring policies and procedures.

The Department of Human Services was aware of certain risks, had many control activities in place, and performed selected internal control monitoring functions. In addition, it had begun to identify and document some financial-related risks and related control activities. However, the department did not identify and analyze all the risks, design comprehensive controls to address significant risks, or develop sufficient monitoring procedures to ensure that controls were in place and were effective to reduce the significant risks identified.

State policy stipulates that agency management is responsible to identify, analyze, and manage business risks that affect its ability to maintain its financial strength and the overall quality of its products and government services.<sup>5</sup> This policy also requires communication of the internal control policies and procedures to all staff so they understand expectations and the scope of their freedom to act. The policy further requires follow-up procedures that, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including the agency's executive management and other individuals in a position to take corrective action. Audit standards reinforced management's responsibility to have effective internal controls over its financial operations.<sup>6</sup> The federal government expects that those controls also ensure compliance with federal program requirements.

## Finding 1

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<sup>3</sup>Unless otherwise noted, all prior audit findings mentioned in this report are from the Office of the Legislative Auditor's Financial Audit Division [Report 09-10, Department of Human Services Federal Compliance Audit](#), issued March 26, 2009.

<sup>4</sup>This finding affects all major federal programs identified in Table 1.

<sup>5</sup>Department of Management and Budget Policy 0102-01.

<sup>6</sup>American Institute of Certified Public Accountants Statement on Auditing Standards #109: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement.

Findings 2 through 11 identify deficiencies in the department's internal control procedures and specific noncompliance with federal requirements that the department's internal control structure did not prevent or detect. If the department had a comprehensive internal control structure, it may have identified these deficiencies, assessed the degree of risk of these deficiencies, designed control procedures to address significant risks, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

*Recommendation*

- *The Department of Human Services should continue to review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes related to major federal programs.*

## Finding 2

### The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate recipient eligibility determinations for four major federal programs.

The department did not have a comprehensive approach to ensure it provided federal program benefits only to eligible recipients for four of its major federal programs (Child Care Cluster - CFDA 93.575 and 93.596; Children's Health Insurance Program - CFDA 93.767; Medical Assistance - CFDA 93.778 and 93.778A; and Temporary Assistance for Needy Families - CFDA 93.558).<sup>7</sup> The department delegated most eligibility determination duties to county social services agencies; however, it remained ultimately responsible to ensure that it provided benefits only to eligible clients.<sup>8</sup> The department did not assess whether its internal controls provided comprehensive, consistent, and timely assurance that it met its recipient eligibility oversight responsibilities.

Because the department lacked a comprehensive, coordinated approach to its eligibility oversight responsibilities, it did not identify or design controls to address the following areas where oversight was not sufficient:

- **Child Care Cluster:** The department did not have adequate internal controls in place to determine how well county social service agencies

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<sup>7</sup> The federal award numbers for programs affected are in Appendix A.

<sup>8</sup> County staff worked with clients to determine and validate whether the client met certain eligibility requirements, such as citizenship, immigration status, residency, and income. The county staff entered validated information into the state's computer system. The state paid benefits to the clients.

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performed eligibility functions.<sup>9</sup> During fiscal year 2009, the department began paying child care providers directly rather than having each county make the payments. The department did not recognize that this change significantly increased its oversight responsibilities and did not assess the design of its existing controls to determine whether the controls were sufficient. The department's existing controls included training for county staff about state program policies and the use of the state's computer system.

- **Medical Assistance:** The department did not consider how to effectively coordinate its eligibility oversight efforts to address deficiencies in comprehensive coverage for the following activities:
  - The Medicaid Eligibility Quality Control Unit did not include annual eligibility redeterminations in the scope of its testing. In accordance with a federally approved pilot project, the unit tested the counties' eligibility determinations for new applicants, which the department estimates made up only about 28 percent of Medical Assistance recipients during our audit scope.
  - The department did not consider how it could have used county single audits to help it achieve more effective oversight. It also did not identify the inconsistent scopes of counties' federal single audits. About two-thirds of the counties' auditors did not test Medical Assistance eligibility determinations as part of their single audit work because of questions about audit requirements. The department did not formalize its audit requirements in written agreements with the counties. Although not required, formal written agreements could clarify the department's expectations and provide recourse for nonperformance.
  - In compliance with the federal Centers for Medicare and Medicaid Services requirements, the department measures payment error rates every three years for Medical Assistance and the Children's Health Insurance Program. Part of this payment error rate measurement requires the department to look at eligibility procedures. However, in each three-year cycle, this measurement only covers one federal fiscal year. This leaves a gap of two federal fiscal years that the department does not examine using this process.
- **Temporary Assistance for Needy Families:** Although the department had a Program Assessment and Integrity Division that performed many timely and consistent eligibility oversight functions, it did not sufficiently test whether county staff accurately handled certain sanctions in the department's eligibility system. Federal regulations require that clients

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<sup>9</sup> Five counties contracted with nonprofit entities to provide these services.

who refused a work plan or did not cooperate with child support enforcement should be sanctioned, while clients who are single parents and unable to work because they did not have a viable childcare option should not be sanctioned.<sup>10</sup>

Our testing of some eligibility determinations made by Ramsey County and our review of the testing performed by the department's Payment Error Rate Measurement Section identified 8 out of 66 recipients who did not meet all eligibility requirements for two programs. For Medical Assistance, two recipient files at Ramsey County lacked citizenship documentation. For other counties the department reviewed, one recipient file lacked sufficient income documentation. For the Children's Health Insurance Program, three recipients did not meet program income guidelines, and two recipient files lacked appropriately signed applications. These errors indicated that the department needed to provide the counties with more instruction and oversight for eligibility determinations.

#### *Recommendations*

- *The Department of Human Services should develop a comprehensive, coordinated approach to ensure and monitor compliance with federal eligibility requirements. It should consider how it can use the following elements to enhance its controls:*
  - *Formal agreements with counties to communicate federal program requirements and the department's expectations.*
  - *Consistent and enhanced scopes of counties' single audits.*
- *The Department of Human Services should develop internal controls to monitor the specific eligibility requirements related to sanctions for the Temporary Assistance for Needy Families program.*

## **Finding 3**

### **Prior Finding Not Resolved: The Department of Human Services did not adequately protect not public data on individuals.**

The department did not sufficiently protect not public data on individuals.<sup>11</sup> The department sometimes recorded the names or social security numbers of assistance recipients in fields in the state's accounting system, which was then stored in the state's information warehouse. Anyone with access to commonly used tables in the state's information warehouse could view this not public data. In addition, the department incorporated the not public data into its own information warehouse.

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<sup>10</sup> 45 CFR parts 261.14, 264.30, and 261.56.

<sup>11</sup> This potentially affects all the federal award numbers for programs in Appendix A.

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State statutes define data on individuals that is collected, maintained, used, or disseminated by a welfare system as private data on individuals.<sup>12</sup> The statutes prohibit the Department of Human Services and other departments with public assistance systems from disclosing the data except under very restricted circumstances. In addition, state policy categorizes accounting system data as public and specifically instructs state agencies that names and health-related information on individuals should not be included.<sup>13</sup>

#### *Recommendations*

- *The Department of Human Services should not record not public data in unprotected fields in the state's accounting system.*
- *The Department of Human Services should work with the Department of Management and Budget to remove or restrict access to the data in the state's information warehouse.*
- *The Department of Human Services should eliminate or protect not public data it brings into its warehouse from the state's information warehouse.*

### **The Department of Human Services had weaknesses in its administration of the department's Cost Allocation Plan for federal assistance program expenditures.**

### **Finding 4**

For the majority of its federal programs, including the major ones listed in Appendix A, the department did not have an adequate process to ensure that costs were allocated properly to its cost allocation plan. In 4 of the 16 cost pools tested, we found that the department did not correctly distribute applicable administrative expenditures to the correct schedule and/or cost center schedule as outlined in its written plan. Cost pools, schedules, and cost centers are groupings of incurred costs identified with two or more federal programs. Each grouping constitutes a pool of expenses that are of like character in terms of the functions they benefit and the method used to allocate the costs. Four instances included allocation or manual adjustment errors ranging from \$11,000 to \$374,000. In addition, one of the four also was incorrect because the department did not change its cost allocation plan to reflect current program requirements.

The department also did not have controls in place to ensure that only allowable costs were included in its cost allocation plan. For example, the department's

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<sup>12</sup> *Minnesota Statutes* 2009, Chapter 13.46

<sup>13</sup> Department of Management and Budget Policy 0803-01.

allocation process did not prevent it from including an unallowable \$60,000 transaction coded in the accounting system as a land improvement.<sup>14</sup>

#### *Recommendation*

- *The Department of Human Services should improve its process for allocating federal assistance program expenditures to its Cost Allocation Plan.*

## **Finding 5**

### **The Department of Human Services did not accurately report financial activity for certain federal programs.<sup>15</sup>**

The department had errors in several reports submitted to the federal government. The department risked questioned costs when it made the following errors:

- The department did not report \$24 million in maintenance of effort expenditures for the Temporary Assistance for Needy Families Program's annual report (CFDA 93.558). The department did not report the working family credit amount administered by the Department of Revenue. The federal oversight agency for this program required that the total of maintenance of effort claimed in the annual report must equal what the department claimed in the fourth quarter report.<sup>16</sup>
- The department also incorrectly reported amounts for the Child Support Enforcement Program (CFDA 93.563 and 93.563A) in its June 30, 2009, report. The department reported cost recovery and federal annual fees as \$256,000 when the correct total was \$1.17 million. In addition, it reported interest and other income at zero when the correct total was \$52,000.
- Finally, the department did not include approximately \$23,000 for the value of benefit cards that were lost and replaced for the Supplemental Nutritional Assistance Program (CFDA 10.551, 10.551A, 10.651, and 10.651A) on its monthly program reports. Federal guidelines consider this activity a key reporting item.<sup>17</sup>

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<sup>14</sup> The inclusion of this \$60,000 unallowable cost did not result in a questioned cost because the department erred when it coded this transaction as a land improvement. Our testing verified that it was a cost allowable for inclusion in the department's indirect cost rate. Finding 6 further discusses the coding error.

<sup>15</sup> See Appendix A for crosswalk from Catalogue of Federal Domestic Award (CFDA) numbers to specific federal award grant number.

<sup>16</sup> U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance, TANF-ACF-PI-2008-06 *Temporary Assistance for Needy Families Program Instructions*.

<sup>17</sup> Per the March 2009 OMB Circular A-133 Compliance Supplement, Part 4, section regarding Compliance Requirement L (Special Reporting), Line 9 on the FNS-46 Report is a "Key Line Item" which contains critical information.

The department did not sufficiently review and validate the accuracy of its reports before submitting them to the federal government.

*Recommendations*

- *The Department of Human Services should ensure the accuracy of all federal financial reports.*
- *The Department of Human Services should correct the inaccurate reports and work with the appropriate federal agencies to determine if the errors resulted in any amounts due to the federal government.*

**The Department of Human Services did not accurately record certain transactions in the state's accounting system for several major federal programs and did not promptly pay its liabilities.<sup>18</sup>**

For several major federal programs, including Medical Assistance (CFDA 93.778 and 93.778A), Temporary Assistance for Needy Families (CFDA 93.558), and Child Care Cluster (CFDA 93.575 & 93.596), the department did not select the correct accounting code when recording expenditures. The department miscoded more than \$13 million in Medical Assistance vendor payments for interpreter and other services performed by medical providers as grants or aids to counties. In other instances, department employees coded grant payments to the wrong type of governmental entity or to a non-governmental grantee. In one case, the department coded a \$275,000 block grant for needy families to the communications category. It also miscoded a \$60,000 building water damage restoration to a land improvement category.

In addition, the department did not always use the correct record date in the state's accounting system and did not always promptly pay its liabilities. Four out of thirty items tested had incorrect record dates with errors ranging from 6 to 199 days from the actual date of liability. The department did not promptly pay 6 of the same 30 items. The lateness of the payment ranged from 3 to 169 days. State policy<sup>19</sup> requires all agencies to correctly record the receipt date of goods or services and state statutes<sup>20</sup> require prompt payment, either within the vendor's early payment discount period or 30 days after invoicing, as applicable.

## **Finding 6**

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<sup>18</sup> See Appendix A for crosswalk from Catalogue of Federal Domestic Award (CFDA) number to specific federal award grant number.

<sup>19</sup> Department of Management and Budget Policy 0901-01.

<sup>20</sup> *Minnesota Statutes* 2009, 16A.124.

*Recommendations*

- *The Department of Human Services should record transactions using the correct accounting codes and record dates.*
- *The Department of Human Services should promptly pay its bills, as required by statute.*

## Finding 7

### **Prior Finding Not Resolved: The Department of Human Services was not in compliance with federal cash management requirements.<sup>21</sup>**

The department did not comply with its Treasury-State Agreement for the Supplemental Nutrition Assistance Program (CFDA 10.551, 10.551A, 10.651, and 10.651A), the Medical Assistance Program (CFDA 93.778 and 93.778A), and the Child Care Cluster Programs (CFDA 93.575 and 93.596). In accordance with the federal Cash Management Improvement Act, the department agreed to minimize the time it holds federal cash. The Treasury-State Agreement allows the department to make payments no later than one day after the receipt of federal funds for the Medical Assistance, Child Care, and Nutrition programs.

For the Medical Assistance Program, the department exceeded its one-day limit and had significant excess cash on hand four times throughout fiscal year 2009. The number of consecutive days in which this program had positive cash balances ranged from 3 to 8 days for a total of 23 days, and the positive federal cash amounts per day ranged from \$11 million to \$125 million.

For the Child Care Cluster, the department exceeded its one-day limit and had excess cash on hand four times throughout fiscal year 2009. The number of consecutive days in which this program had positive cash balances ranged from 1 to 7 days for a total of 12 days, and the positive federal cash amounts per day ranged from \$145,000 to \$8,200,000.

For the Supplemental Nutrition Assistance Program, the department exceeded its one-day limit and had significant excess cash on hand three times, for a total of nine days throughout fiscal year 2009. The positive federal cash amounts per day were approximately \$1 million.

The Substance Abuse Prevention and Treatment Program (CFDA 93.959), which is not included in the Treasury-State Agreement, also did not minimize the time it held federal cash. The department held excess cash for more than one day 28 times during fiscal year 2009. The number of consecutive days in which this program had positive cash balances ranged from 1 to 12 days for a total of 108

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<sup>21</sup> The federal award numbers for programs affected are in Appendix A.

days, and the positive federal cash amounts per day were from \$10,000 to \$1,700,000.

By not closely monitoring its federal cash balances, the department contributed nearly \$25,000 to the state's overall interest payable to the federal government during fiscal year 2009.

*Recommendation*

- *The Department of Human Services should comply with the federal Cash Management Improvement Act and its Treasury-State Agreement by better monitoring and maintaining minimum program cash balances.*

**Prior Finding Not Resolved: The Department of Human Services submitted reports to the federal government late for three federal programs.**

The department did not maintain sufficient internal controls to ensure the timeliness of reports for three of its federal programs - the Medical Assistance Program (CFDA 93.778 and 93.778A), the Children's Health Insurance Program (CFDA 93.767), and the State Health Care Providers Survey (CFDA 93.777). The department did not meet the 30-day reporting requirement for filing quarterly reports to the federal government for several years. During fiscal year 2009, the department electronically filed the reports from 13 to 111 days after the due date. The federal government relies on the reports to ensure compliance with program objectives and ensure that the state is appropriately managing and monitoring the federal award.<sup>22</sup>

**Finding 8**

*Recommendation*

- *The Department of Human Services should improve its reporting process to ensure timely submission of all of its federal reports.*

**The Department of Human Services could not fully validate \$54 million in adjustments for one of its major federal assistance programs.**

**Finding 9**

The Department of Human Services did not have an effective process to validate \$54 million in adjustments for its Child Support Enforcement Program (CFDA 93.563 and 93.563A).<sup>23</sup> The objectives of the federal program are to determine paternity, establish child and spousal support, locate absent parents, and enforce

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<sup>22</sup> See Appendix A for crosswalk from Catalogue of Federal Domestic Award (CFDA) number to specific federal award grant number.

<sup>23</sup> See Appendix A for crosswalk from Catalogue of Federal Domestic Award (CFDA) number to specific federal award grant number.

support obligations. To do this, the department created a subsystem to track billing and collection activity. The department's subsystem identified current receivables, collections, and billings, but could not produce a detailed report to explain differences between the beginning and ending balances for the fiscal year. The department used the subsystem to pay nearly \$97 million for enforcement grants and to account for approximately \$645 million in support payments during fiscal year 2009.

#### *Recommendation*

- *The Department of Human Services should enhance its reporting process to fully identify receivable adjustments in its Child Support Enforcement Program.*

## **Finding 10**

### **The Department of Human Services did not independently review two key payroll reports.**

The department did not independently review two key payroll reports to ensure the accuracy of wages and to verify that staff posted payroll expenditures to correct accounts on the state's accounting system. The self service time entry audit report identifies payroll transactions that did not follow the expected timesheet completion and review process. It lists instances when an employee did not complete their own timesheet and when someone other than the employee's supervisor authorized the timesheet for payment. The payroll register report shows the current pay period's earnings codes, hours, pay rates, adjustments, lump-sum payments, and expense reimbursements.

The Department of Management and Budget's policies require agencies to review these reports.<sup>24</sup> For fiscal year 2009, the department did have payroll staff review the two reports. However, the employee who performed the reviews was not independent of the payroll process. Also, the department did not require an employee or supervisor to sign off on report exceptions. An independent review of the reports by an employee outside the payroll process and follow up of repeated unusual transactions would significantly reduce the risk of errors or fraud.

#### *Recommendations*

- *The Department of Human Services should conduct an independent review of the self service time entry audit report and payroll register report each pay period to verify the accuracy of payroll transactions.*

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<sup>24</sup>Department of Management and Budget's policies PAY0017 *Employee Self Service Time Entry*, PAY0018 *Labor Distribution*, and PAY0028 *Agency Verification of Payroll and Human Resources Transactions*.

- *The Department of Human Services should follow up on self service time entry audit report and payroll register report exceptions and work with department supervisors to reduce the frequency of those exceptions.*
- *The Department of Human Services should document its review of key payroll reports and show the resolution of exceptions noted.*

**The Department of Human Services did not comply with state economic interest statement requirements for two assistant commissioners.**

## **Finding 11**

The department did not notify the Minnesota Campaign Finance and Public Disclosure Board upon hiring two new assistant commissioners. An appointing authority must notify the board of an appointment, as well as the name of the individual required to file a statement and the date of appointment.<sup>25</sup> Appointed and elected public officials must file an Original Statement of Economic Interest.<sup>26</sup> Officials must file the original statement within 60 days following the effective date of the appointment. In failing to notify the board, the department did not prompt the Campaign Finance and Public Disclosure Board to contact the two new assistant commissioners and require them to submit their statements.

### *Recommendation*

- *The Department of Human Services should develop a process to ensure compliance with the state economic interest statement requirements.*

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<sup>25</sup>Campaign Finance and Public Disclosure website and statutes in footnote 26.

<sup>26</sup>[Minnesota Statutes](#) 2009, 10A.025, *Filing Requirements* and 15.066 *Confirmation of Appointments*.

**Appendix A**  
**Major Federal Programs**  
**Administered by the Department of Human Services**  
**Fiscal Year 2009**

<b>CFDA<sup>1</sup></b>	<b>Program Name</b>	<b>Federal Award Numbers</b>
	<u>Food and Nutrition Services Cluster<sup>2</sup></u>	-----
10.551	Supplemental Nutrition Assistance Program	2009IS601842, 2009IS802642, 2009IS604542,
10.551A	Supplemental Nutrition Assistance Program ARRA <sup>3</sup>	2009ID281142, 2009ID282142
10.561	Supplemental Nutrition Assistance Program Administration	2009IS251442, 2009CQ260342, 2009IS803642, 2009IQ650342, 2009CE251842, 2009TE251842, 2009IS251942, 2009IS252042, 2009CQ252042
10.561A	Supplemental Nutrition Assistance Program Administration ARRA	2009ID250342
93.558	Temporary Assistance for Needy Families	0602MNTANF, 0702MNTANF, 0802MNTANF, 0902MNTANF,
93.563	Child Support Enforcement	9904MN4004, 0104MN4004, 0304MN4004, 0404MN4004, 0604MN4004, 0804MN4004, 0804MN4004, 0904MN4004, 0504MNHMHR, 0604MNHMHR, 0704MNHMHR,
93.563 A	Child Support Enforcement ARRA	0904MN4002
	<u>Child Care Cluster</u>	-----
93.575	Child Care and Development Block Grant	0502MNCCDF, 0602MNCCDF, 0702MNCCDF, 0802MNCCDF, 0902MNCCDF
93.596	Child Care Mandatory and Matching Fund	Same as above
93.658	Foster Care – Title IV-E	0401MN1401, 0601MN1401, 0701MN1401, 0801MN1401, 0901MN1401
93.658A	Foster Care - Title IV-E ARRA	0901MN1402
93.667	Social Services Block Grant	0601MNSOS2, 0901MNSOSR
93.767	Children's Health Insurance Program	0805MN5021, 0905MN5021
	<u>Medicaid Cluster</u>	-----
93.775	State Medicaid Fraud Control Unit <sup>4</sup>	Not expended at DHS, no issues
93.777	State Health Care Providers Survey	0805MN5001, 0905MN5001
93.778	Medical Assistance Program	0705MN5048, 0805MN5048, 0905MN5048, 0705MN5028, 0805MN5028, 0905MN5028
93.778A	Medical Assistance Program ARRA	0905MNARRA

<sup>1</sup>The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

<sup>2</sup>A cluster of programs is a group of closely related programs that have similar compliance requirements and are treated as a single program.

<sup>3</sup>The American Recovery and Reinvestment Act (ARRA) funds were segregated to fulfill transparency guidelines.

<sup>4</sup>The State Medicaid Fraud Control Unit is administered through the Minnesota Office of the Attorney General. We performed specific federal compliance audit work on this program for fiscal year 2008. We did not report any written findings or recommendations.

Source: Minnesota Accounting and Procurement System.



Minnesota Department of **Human Services** \_\_\_\_\_

March 15, 2010

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, 2009. 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/ Wendy Dwyer*

Wendy Dwyer  
Chief Operations Officer

Enclosure

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Audit Finding #1**

Prior Finding Partially Resolved:<sup>1</sup> The Department of Human Services did not identify, analyze, and document its internal controls related to business operations and the schedules of federal expenditures.

**Audit Recommendation #1**

The Department of Human Services should continue to review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes related to major federal programs.

**Department Response #1**

The department agrees with the recommendation. During the June – December 2009 period, Financial Operations Division management, supervisors and staff committed in excess of 600 hours to a risk assessment process that was based on the Minnesota Management and Budget Internal Control Self-Assessment Tool. The resulting document will be reviewed, updated at least annually, and appropriate actions will be taken that respond to risks.

**Person Responsible:** Martin L. Cammack, Financial Operations Director  
**Estimated Completion Date:** December 31, 2010

**Audit Finding #2**

The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate recipient eligibility determinations for four major federal programs.

**Audit Recommendation #2-1**

The Department of Human Services should develop a comprehensive, coordinated approach to ensure and monitor compliance with federal eligibility requirements. It should consider how it can use the following elements to enhance its controls:

- Formal agreements with counties to communicate federal program requirements and the department's expectations.

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<sup>1</sup>Unless otherwise noted, all prior audit findings mentioned in this report are from the Office of the Legislative Auditor's Financial Audit Division [Report 09-10, Department of Human Services Federal Compliance Audit](#), issued March 26, 2009.

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

- Consistent and enhanced scopes of counties' single audits.

**Department Response #2-1**

The department will clearly define and implement a comprehensive approach to ensure compliance with federal eligibility requirements for its major federal programs. Currently, the department carries out a number of oversight function carried out by the Program Assessment and Integrity Division (PAID) and the specific audit activities conducted by PERM and MEQC. However, as stated in the finding this approach may not appear adequate as we have not coordinated these activities into a comprehensive agency approach. Using a comprehensive approach, we will assure eligibility reviews are conducted on a continuing and routine basis. We will carefully consider both of the suggested elements to a comprehensive coordinated approach as suggested in the recommendation. We will report back to the OLA on the comprehensive approach implemented by DHS.

**Person Responsible:** David Ehrhardt, Internal Audit Director  
**Estimated Completion Date:** July 1, 2010

**Audit Recommendation #2-2**

The Department of Human Services should develop internal controls to monitor the specific eligibility requirements related to sanctions for the Temporary Assistance for Needy Families program.

**Department Response #2-2**

DHS will:

- Review and revise its training curriculum and instructions to employment counselors regarding procedure to follow when imposing sanctions, including proper documentation.
- Develop and issue protocol for employment services supervisors to use in conducting targeted reviews of sanctioned cases.
- Integrate review of MFIP sanctions into case review guides for county financial supervisors.

**Person Responsible:** Kate Wulf, acting TES Director  
**Estimated Completion Date:** Ramona Scarpace, PAID Director  
September 2010

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Audit Finding #3**

Prior Finding Not Resolved: The Department of Human Services did not adequately protect not public data on individuals.

**Recommendation #3-1**

The Department of Human Services should not record not public data in fields in the state's accounting system.

**Department Response #3-1**

The department agrees with this recommendation. On a very limited basis it has been the department's practice to enter an individual's name in the MAPS Vendor Invoice Field Code field so the vendor will know who the payment is attributable to. As soon as possible, this practice will be discontinued and replaced with a remittance advice mailing to the vendor and/or use of MMB's pull warrant / warrant enclosure process. For those limited instances where an individual is the MAPS vendor receiving payment, the department is not aware of an alternative; however employee access to MAPS is restricted at DHS due to the functionality of the department's information warehouse. The SWIFT system is expected to provide a solution to this issue.

**Person Responsible:** Martin L. Cammack, Financial Operations  
Director  
**Estimated Completion Date:** June 30, 2011

**Recommendation #3-2**

The Department of Human Services should work with the Department of Management and Budget to remove or restrict access to the data in the state's information warehouse.

**Department Response #3-2**

The department agrees with this recommendation and will continue to assist the Department of Management and Budget. The specific situations referred to in Response #3-1 will be identified for the Department of Management and Budget so that if it is technically feasible, they may remove or restrict access to the data in the state's information warehouse.

**Person Responsible:** Martin L. Cammack, Financial Operations  
Director  
**Estimated Completion Date:** June 30, 2011

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Recommendation #3-3**

The Department of Human Services should eliminate or protect not public data it brings into its warehouse from the state's information warehouse.

**Department Response #3-3**

The department agrees with this recommendation. The department will remove or restrict access to the data in the department's warehouse.

**Person Responsible:** Martin L. Cammack, Financial Operations  
Director

**Estimated Completion Date:** June 30, 2011

**Auditing Finding #4**

The Department of Human Services had weaknesses in its administration of the department's Cost Allocation Plan for federal assistance program expenditures.

**Audit Recommendation #4**

The Department of Human Services should improve its process for allocating federal assistance program expenditures to its Cost Allocation Plan.

**Department Response #4**

The department agrees with the recommendation. The department will continue to improve its process for allocating federal assistance program expenditures to its Cost Allocation Plan. During the past year, the cost allocation process has been modified to include additional double-checks by staff. Additional staff resources have also been assigned to the cost allocation function and procedural documentation has been updated.

**Person Responsible:** Martin L. Cammack, Financial Operations

Director

**Estimated Completion Date:** Completed

**Audit Finding #5**

The Department of Human Services did not accurately report financial activity for certain federal programs.

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Audit Recommendation #5-1**

The Department of Human Services should ensure the accuracy of all federal financial reports.

**Department Response #5-1**

The department agrees with this recommendation and will provide additional supervisory review of all federal reports before submission.

**Person Responsible:** Martin L. Cammack, Financial Operations Director

**Estimated Completion Date:** Completed

**Audit Recommendation #5-2**

The Department of Human Services should correct the inaccurate reports and work with the appropriate federal agencies to determine if the errors resulted in any amounts due to the federal government.

**Department Response #5-2**

The department agrees with this recommendation and has already determined that none of the errors resulted in additional amounts due to the federal government. The inaccurate reports have already been corrected and resubmitted.

**Person Responsible:** Martin L. Cammack, Financial Operations Director

**Estimated Completion Date:** Completed

**Audit Finding #6**

The Department of Human Services did not accurately record certain transactions in the state's accounting system for several major federal programs and did not promptly pay its liabilities.

**Audit Recommendation #6-1**

The Department of Human Services should record transactions using the correct accounting codes and record dates.

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Department Response #6-1**

The department agrees with the recommendation concerning \$13 million in MA vendor payments coded as grants or aid to counties. We will take the necessary steps to ensure future interpreter service payments use the appropriate object code.

The department will also provide additional training and instruction to Financial Operations Division staff regarding the use of correct record dates when payments are made in MAPS.

**Person Responsible:** Martin L. Cammack, Financial Operations Director

**Estimated Completion Date:** June 30, 2010

**Audit Recommendation #6-2**

The Department of Human Services should promptly pay its bills, as required by statute.

**Department Response #6-2**

The department agrees with this recommendation. The department will review its business process to determine whether the time required for the internal routing and approval of invoices can be reduced so payments may be made more promptly

**Person Responsible:** Martin L. Cammack, Financial Operations Director

**Estimated Completion Date:** June 30, 2010

**Audit Finding #7**

Prior Finding Not Resolved: The Department of Human Services was not in compliance with federal cash management requirements.

**Audit Recommendation #7**

The Department of Human Services should comply with the federal Cash Management Improvement Act and its Treasury-State Agreement by better monitoring and maintaining minimum program cash balances.

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Department Response #7**

The department agrees with the recommendation. The infusion of ARRA money created most of the cash on hand issues specific to CFDA's 93.778 and 93.778A. Large receipts coming into these accounts also contributed to this finding. For a period of time, there was some confusion about how to accurately draw these funds and their interaction with our regular Medicaid award which resulted in the department having too much cash on hand. Through additional technical assistance and coordination with CMS, and thorough internal review, the department has since established procedures and internal controls to prevent this from occurring in the future.

Over the past year, training has been provided to accountants regarding monitoring cash balances and modifications have been made to our Federal Funds Management system to provide additional edits to prevent the drawing of excess cash on hand.

In addition to these changes, DHS will also implement additional monitoring of cash balances throughout the year. A monthly review will be done of CFDAs where interest is owed; this report will be provided to FOD management for additional review and follow-up.

**Person Responsible:** Martin L. Cammack, Financial Operations Director  
**Estimated Completion Date:** June 30, 2010

**Audit Finding #8**

Prior Finding Not Resolved: The Department of Human Services submitted reports to the federal government late for three federal programs.

**Audit Recommendation #8**

The Department of Human Services should improve its reporting process to ensure timely submission of all of its federal reports.

**Department Response #8**

The department has made several improvements to its processes in an attempt to improve report submission timing. Unfortunately, given the level of complexity and continuous changes at the federal level, meeting designated timelines will continue to be difficult if not impossible.

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

We are developing a quarterly CMS-64/21 Report status/issue log. This log will be reviewed quarterly with the DHS Medicaid Director, Reports & Forecasts Director and CFO to ensure appropriate follow-up within DHS and continued coordination with federal CMS staff.

**Person Responsible:** Martin L. Cammack, Financial Operations Director  
**Estimated Completion Date:** December 31, 2010

**Audit Finding #9**

The Department of Human Services could not fully validate \$54 million in adjustments for one of its major federal assistance programs.

**Audit Recommendation #9**

The Department of Human Services should enhance its reporting process to fully identify receivable adjustments in its Child Support Enforcement Program.

**Department Response #9**

CSED has created a report that will properly identify receivable adjustments.

**Person Responsible:** Wayland Campbell, Child Support Enforcement Director  
**Estimated Completion Date:** Completed

**Audit Finding #10**

The Department of Human Services did not independently review two key payroll reports.

**Audit Recommendation #10-1**

The Department of Human Services should conduct an independent review of the self service time entry audit report and payroll register report each pay period to verify the accuracy of payroll transactions.

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Department Response #10-1**

The department agrees with this finding. DHS will review duties of payroll staff and identify staff that are best able to perform an independent review of these reports.

**Person Responsible:** Martin L. Cammack, Financial Operations Director  
**Estimated Completion Date:** June 30, 2010

**Audit Recommendation #10-2**

The Department of Human Services should follow up on self service time entry audit report and payroll register report exceptions and work with department supervisors to reduce the frequency of those exceptions.

**Department Response #10-2**

The department agrees with this finding. As part of the review and documentation of payroll duties, DHS will review the process currently being followed regarding these reports and document procedures to for payroll staff to use when following-up with department supervisors regarding noted exceptions.

**Person Responsible:** Martin L. Cammack, Financial Operations Director  
**Estimated Completion Date:** June 30, 2010

**Audit Recommendation #10-3**

The Department of Human Services should document its review of key payroll reports and show the resolution of exceptions noted.

**Department Response #10-3**

The department agrees with this finding. As part of the review and documentation of payroll duties, DHS will review the process currently being followed regarding these reports and document procedures for payroll staff to use when following-up with department supervisors regarding noted exceptions and subsequent resolution of expectations.

**Person Responsible:** Martin L. Cammack, Financial Operations Director  
**Estimated Completion Date:** June 30, 2010

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2009**

**Audit Finding #11**

The Department of Human Services did not comply with state economic interest statement requirements for two assistant commissioners.

**Audit Recommendation #11**

The Department of Human Services should develop a process to ensure compliance with the state economic interest statement requirements.

**Department Response #11**

The department agrees. We will develop a procedure that assures all appointed positions will comply with the state economic interest requirements.

**Person Responsible:** Connie Jones, Human Resources Director  
**Estimated Completion Date:** July 1, 2010