



**FINANCIAL AUDIT DIVISION REPORT**

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**Department of Human Services**

**Federal Compliance Audit**

**Fiscal Year 2011**

**March 29, 2012**

**Report 12-07**

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 29, 2012

Representative Michael Beard, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Lucinda Jesson, Commissioner  
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 2011. 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 15, 2012. This audit was conducted by Cecile Ferkul, CPA, CISA, (Deputy Legislative Auditor) and Laura Wilson, CPA, (Auditor-in-Charge), assisted by auditors Tyler Billig, Jordan Bjonfald, Cindy Gaertner, Melanie Greufe, CPA, CFE, Tyler Johnson, Chau Nguyen, CPA, Blake Schwagel, Margaret Sullivan, Lindsay Tietze, CPA, David Westlund, CPA, CISA, and Emily Wiant.

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 29, 2012.

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles  
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor



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# Report Summary

## Conclusion

The Department of Human Services generally complied with and had internal controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2011. However, as noted in Finding 2, the department did not comply with (and did not have adequate internal controls to comply with) federal eligibility requirements for the Temporary Assistance for Needy Families Program. In addition, the department had other weaknesses, as noted in findings 1 through 11 in the following *Findings and Recommendations* section (including eight repeat findings from last year's audit that were not fully resolved<sup>1</sup>).

## Key Findings

- Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements. ([Finding 1, page 5](#))
- Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs. ([Finding 2, page 6](#))
- The Department of Human Services allocated some costs to federal programs that may not have been allowable for federal reimbursement. ([Finding 3, page 8](#))

## Audit Scope

Our scope included programs determined to be major federal programs for the State of Minnesota for fiscal year 2011, including Medicaid Cluster, Child Support Enforcement, Child Care Cluster, Social Services Block Grant, Foster Care, Temporary Assistance for Needy Families, and Food and Nutrition Services Cluster.

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<sup>1</sup> Office of the Legislative Auditor's Financial Audit Division Report 11-13, *Department of Human Services*, issued May 6, 2011.

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# 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>2</sup> Table 1 identifies these major federal programs at the Department of Human Services.

**Table 1**  
**Department of Human Services**  
**Major Federal Programs**  
**Fiscal Year 2011**  
**(in thousands)**

<u>CFDA</u> <sup>1</sup>	<u>Program Name</u>	<u>Federal Expenditures</u>	<u>Federal ARRA</u> <sup>2</sup> <u>Expenditures</u>	<u>Total</u>
	<u>Food and Nutrition Services Cluster</u>			
10.551	Supplemental Nutrition Assistance Program	\$ 683,391	\$ 0	\$ 683,391
10.561	Supplemental Nutrition Assistance Administration	68,177	0	68,177
	<u>Temporary Assistance for Needy Families Cluster</u>			
93.558	Temporary Assistance for Needy Families	\$ 229,120	\$ 0	\$ 229,120
93.714	Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs ARRA	0	5,037	5,037
93.563	Child Support Enforcement	\$ 113,924	\$ 1,980	\$ 115,904
	<u>Child Care Cluster</u>			
93.575	Child Care and Development Block Grant	\$ 92,590	\$ 0	\$ 92,590
93.596	Child Care Mandatory and Matching Fund	59,429	0	59,429
93.713	Child Care and Development ARRA	0	20	20
93.658	Foster Care – Title IV-E	\$ 44,720	\$ 1,208	\$ 45,928
93.667	Social Services Block Grant	\$ 33,977	\$ 0	\$ 33,977
	<u>Medicaid Cluster</u>			
93.720	Survey and Certification	\$ 0	\$ 78	\$ 78
93.775	State Medical Fraud Control Units	976	0	976
93.777	State Health Care Providers Survey	5,151		5,151
93.778	Medical Assistance Program	4,310,599	656,636	4,967,235

<sup>1</sup>The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. Some federal programs are clustered if they have similar compliance requirements. Although the programs within a cluster are administered as separate programs, they are treated as a single program for the purpose of meeting the audit requirements of the U.S. Office of Management and Budget's Circular A-133.

<sup>2</sup>American Recovery and Reinvestment Act.

Source: Fiscal year 2011 Schedule of Expenditures of Federal Awards.

<sup>2</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 2011 exceeded \$30 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 2011. This audit is part of our broader federal single audit designed 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>3</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 internal controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2011. However, as noted in Finding 2, the department did not comply with (and did not have adequate internal controls to comply with) federal eligibility requirements for the Temporary Assistance for Needy Families Program. In addition, the department had other weaknesses, as noted in findings 1 through 11 in the following *Findings and Recommendations* section (including eight repeat findings from last year's audit that were not fully resolved<sup>4</sup>).

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>3</sup> The State of Minnesota's single audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 20, 2011, on the State of Minnesota's basic financial statements for the year ended June 30, 2011. 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 12-03, *Report on Internal Control Over Financial Reporting*, issued February 16, 2012.) This report included control deficiencies related to the Department of Human Services.

<sup>4</sup> Office of the Legislative Auditor's Financial Audit Division Report 11-13, *Department of Human Services*, issued May 6, 2011.

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# Findings and Recommendations

**Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.**

## Finding 1

The department did not have a comprehensive risk assessment regarding internal controls over compliance with other federal single audit requirements.<sup>5</sup> The federal Office of Management and Budget, Circular A-133, outlines the state's responsibilities for managing federal assistance programs and addresses general compliance requirements and program specific requirements. The department developed a risk assessment related to many of its financial operations and had many control activities and monitoring functions. Since our last audit, it also improved the controls over recipient eligibility for four major federal programs and reorganized its fraud and licensing units into the Office of Inspector General. However, it did not fully identify and analyze risks related to federal program compliance, design comprehensive controls to address significant risks, or develop sufficient monitoring procedures to ensure controls were in place and were effective to reduce the significant risks identified. A comprehensive internal control structure is critical to ensure compliance with federal requirements. The department had an increased likelihood of noncompliance when it did not clearly communicate to all staff its risks, control activities, and monitoring policies and procedures.

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>6</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. The federal government expects that those controls also ensure compliance with federal laws, regulations, and program compliance requirements.<sup>7</sup>

The findings in this report identify deficiencies in the department's internal control procedures and specific noncompliance with federal requirements that the

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<sup>5</sup> This finding affects all major federal programs identified in Table 1. See Appendix A for the federal award numbers for these programs. It also applies to federal programs that were major programs in fiscal year 2009, but not in fiscal years 2010 and 2011, including Adoption Assistance (CFDA 93.659), Substance Abuse (CFDA 93.959), and Children's Health Insurance Program (CFDA 93.767).

<sup>6</sup> Department of Management and Budget Policy 0102-01, *Internal Control*.

<sup>7</sup> U.S. Office of Management and Budget Circular A-133, § \_\_\_\_.300(b).

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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 for the these deficiencies, designed control procedures to address significant risk, 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 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**

**Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs.**

The department designed but did not fully implement quality control reviews over eligibility as part of its oversight to ensure it provided federal program benefits only to eligible recipients for its fiscal year 2011 Child Care Cluster (CFDA 93.575, 93.596, and 93.713) and Temporary Assistance for Needy Families (CFDA 93.558 and 93.714) programs.<sup>8</sup> The department delegated to the counties the responsibility to meet with recipients applying for assistance and determine the appropriate benefits. To verify the accuracy of the county workers' benefit determinations and redeterminations, the department selected random statistical samples of recipient cases and verified the county workers had accurately determined eligibility; however, this oversight control was not in place until after fiscal year 2011. The department referred errors found during the quality control review back to the counties and referred any suspected fraud to the department's Office of Inspector General. Because the testing was not complete, the department continued to have a higher risk of noncompliance with federal eligibility requirements.

The objective of our testing was twofold: To see whether the department's quality control review was effective to identify errors made by the county workers and to see the extent of errors made by county workers. Because the department's

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<sup>8</sup> See Appendix A, on page 17 of this report, for the federal award numbers for these programs. In our fiscal year 2010 audit report, we found that the department did not adequately monitor the counties eligibility determinations for the Medical Assistance (CFDA 93.778 and 93.778A) and Children's Health Insurance (CFDA 93.767) programs, and the department has since resolved this portion of the finding.

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oversight of eligibility determinations was not fully implemented, the following weaknesses existed:

- **Temporary Assistance for Needy Families:** As of November 2011, the department had selected 240 case files for eligibility review. The department began reviewing the cases in January 2012, when we began our testing, but it had not completed its reviews of the cases or reached conclusions about whether eligibility decisions made by county workers complied with the program's federal requirements.<sup>9</sup> We tested 25 of the case files the department had included in its testing sample, and three of the cases had errors. The errors resulted in the recipients receiving ineligible monthly benefits totaling \$1,586 per month.

Because the department had not yet reviewed many of the cases it had selected for testing and because our review of some of those cases identified that 12 percent had eligibility errors, we concluded that the department did not have adequate internal controls to ensure only eligible people received program benefits, and that the department had not complied with federal program eligibility requirements.

- **Child Care Cluster:** During fiscal year 2012, the department began reviewing county eligibility determinations for the period of July 2010 through June 2011 and selected 276 cases for review. As of January 2012, the department had not completed its review for all fiscal year 2011 cases. We reviewed 40 case files the department had selected for testing. Of those files, one recipient had received \$190 of ineligible monthly benefits. The department's initial quality control review did not detect the error, and the department had not done its second level of review.

In addition, the department did not monitor certain eligibility determination overrides done by county workers in the eligibility systems for the Child Care Assistance, Temporary Assistance for Needy Families, and Medical Assistance (CFDA 93.778 and 93.778A) programs.<sup>10</sup> When county workers encountered unusual or extenuating circumstances, they could override the automated system's benefit determinations. The automated systems provided override reports for the counties to review, but the Department of Human Services did not ensure counties reviewed the reports as a way to verify that the overrides were appropriate. The department also did not analyze the results of the reports to identify unusual trends, errors, or potential fraud.

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<sup>9</sup> Office of Management and Budget A-133 Compliance Supplement, Temporary Assistance to Needy Families, part 4, letter E.

<sup>10</sup> The department used the MAXIS system for recipient eligibility determinations for the Medical Assistance and Temporary Assistance for Needy Families programs and used the MEC2 system for the Child Care Assistance Program.

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*Recommendations*

- *The department should continue its quality review process to ensure compliance with federal eligibility requirements.*
- *The department should monitor the specific eligibility overrides related to the Child Care Assistance, Temporary Assistance for Needy Families, and Medical Assistance programs.*

**Finding 3****The Department of Human Services allocated some costs to federal programs that may not have been allowable for federal reimbursement.**

The Department of Human Services allocated some costs to the federal government through its cost allocation process that may not have been allowable by federal regulations. Stated broadly, the federal allowable cost principles require that costs charged to federal programs be both ordinary and necessary for the performance and administration of the federal awards.<sup>11</sup> The department allocated some costs to federal programs that may not have been allowable, as explained below:

- **Contract settlement and related litigation costs** - The department allocated to the Medical Assistance Program (CFDA 93.778 and 93.778A)<sup>12</sup> about \$3,209,213 of a \$7,250,000 contract settlement it paid in March 2011 and about \$115,859 of the \$552,569 related to litigation costs.<sup>13</sup> The settlement payment and the related litigation costs may not have been allowable costs because they may not have been ordinary and necessary costs of the Medical Assistance Program. The settlement payment related to the department's termination of a contract for a failed software development project. The project, called HealthMatch, was intended to design a web-based computer system to automate eligibility determinations for nearly all the department's health care programs.

After the contract termination, the department and the software development company disagreed on the amount owed to the company for deliverables or services completed. The company claimed that the department owed it nearly \$19 million for unreimbursed services through the date of the contract termination; the department asserted that the value of unreimbursed deliverables totaled closer to \$3 million. Through mediation, they agreed to a payment of \$7,250,000, which the department paid to the contractor in March 2011. Department staff told us that the settlement payment was a reasonable amount and necessary to settle the contract dispute; however, they were

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<sup>11</sup> 2 CFR Part 225, Appendix A, C.1.a, 1.b, 2.a, and 3.a.

<sup>12</sup> See Appendix A for the federal award numbers for these programs.

<sup>13</sup> The department also allocated \$12,796 of the settlement costs and \$116,695 of the litigation costs to other major and non-major federal programs.

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unable to explain how the payment correlated to deliverables the state received, how the payment benefited the Medical Assistance Program, or how the payment was an ordinary and necessary cost of the program.

- **Emergency preparedness costs paid with fees** - The department did not comply with allowable cost requirements when it failed to reduce the cost reimbursements for its emergency preparedness plan by a grant it received related to the plan.

In state fiscal year 2011, the department expended \$270,917 for payroll, equipment, supplies, and other costs required to set up and manage radiological emergency reception centers in the state. The reception centers would provide radiological monitoring, decontamination, basic medical care, and evacuation information for citizens required to leave their homes due to a nuclear power plant emergency. *Minnesota Statutes* requires nuclear power plant owners to pay fees to the state for these costs.<sup>14</sup>

The receipts from the nuclear power business met the federal definition of credits that should offset or reduce the amounts charged to federal programs;<sup>15</sup> however, the department included these costs in its cost allocation pool calculation. As a result, the department charged the Medical Assistance Program (CFDA 93.778 and 93.778A) \$57,908 and the Child Support Enforcement Program (CFDA 93.563 and 93.563A) \$15,250.<sup>16</sup>

- **Capital expenditures fully expended** - The department allocated costs for computer equipment to the Title IV-E Foster Care Program (CFDA 93.658 and 93.658A)<sup>17</sup> that it should have depreciated over time. Specifically, the department charged these capital assets, totaling \$567,550, to a cost pool, resulting in an allocation to the Title IV-E Foster Care Program of \$241,095. Federal regulations only allow reimbursement to the state for equipment and other capital expenditures through depreciation or use allowances.<sup>18</sup> Although the general capitalization threshold for federal programs was \$25,000,<sup>19</sup> the Foster Care Program had a threshold of \$5,000 for computer equipment.<sup>20</sup>

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<sup>14</sup> *Minnesota Statutes* 2011, 12.14, requires that a person in the business of owning or operating a nuclear power plant or dry cask storage facility located in Minnesota shall pay quarterly assessments to cover the cost of nuclear power plant emergency response programs necessary to deal with incidents resulting from either facility.

<sup>15</sup> 2 CFR Part 225, Appendix A, C.4.a.

<sup>16</sup> See Appendix A for the federal award numbers for these programs.

<sup>17</sup> See Appendix A for the federal award numbers for these programs.

<sup>18</sup> 2 CFR Part 225, Appendix B, 15.b.(5).

<sup>19</sup> 45 CFR Section 95.705.

<sup>20</sup> US Department of Health and Human Services, Administration for Children and Families, Action Transmittal No. AT-94-5, dated July, 22, 1994.

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*Recommendations*

- *The department should work with the federal government to determine the allowability of the contract settlement payment and related litigation costs.*
- *The department should reduce its fiscal year 2011 allocation of nuclear power plant emergency preparedness costs and any future cost allocation, by the fees it received from the nuclear power company for that purpose.*
- *The department should have adequate controls in place to ensure capital expenditures are not allocated to federal programs when purchased, but allocated through depreciation expenses or use allowances over their useful lives.*

## Finding 4

**The Department of Human Services did not adequately monitor the counties efforts to detect fraudulent child care payments and ensure they properly recovered the payments.**

The department did not have controls designed to monitor whether the counties identified and collected fraudulent payments from the Child Care Assistance Program (CFDA 93.575, 93.596, and 93.713). The department delegated the fraud detection and payment collection responsibilities to the counties but did not adequately monitor the counties to ensure they followed the department's procedures for detecting fraud and recovering wrongful payments.<sup>21</sup> Federal regulations require the state to recover fraudulent child care payments from the party responsible for committing the fraud.<sup>22</sup> Without adequate monitoring controls, the department could not ensure the counties were complying with the federal regulations.

*Recommendation*

- *The department should ensure counties are making adequate efforts to identify and collect fraudulent child care payments.*

## Finding 5

**The Department of Human Services did not regularly reconcile the federal funds received for electronic benefit transfers, as shown on the bank statements to the state's accounting system.**

The department did not regularly reconcile receipt transactions in the state's accounting system to the federal funds deposited in the bank account used to

<sup>21</sup> Child Care Assistance Program Policy Manual, Chapters 4 and 14.

<sup>22</sup> 45 CFR Section 98.60.



provide electronic food benefits. For the Supplemental Nutritional Assistance Program (CFDA 10.551), the department provided program participants with a debit card to purchase food.<sup>23</sup> Although department staff told us that they periodically compared the bank account's federal deposits to the state accounting system's receipt transactions, they did not have documentation to show the frequency and completeness of the reconciliation. During fiscal year 2011, the department received about \$650 million from the federal government for food benefits. In October 2011, we alerted department staff to the lack of documented reconciliations; they reconciled fiscal year 2011 and identified an \$820,594 discrepancy for June 2011.

#### *Recommendation*

- *The department should regularly reconcile federal deposits for food benefits to receipt transactions in the state's accounting system.*

#### **Prior Finding Partially Resolved: The Department of Human Services did not log or monitor all direct changes to critical Medicaid Management Information System files.**

## **Finding 6**

In response to a prior finding,<sup>24</sup> the department began logging and monitoring most changes employees made to critical payment files in the Medicaid Management Information System; however, the department did not turn on logging to include changes made by technical support staff at the department and the Office of Enterprise Technology who could directly access data in these files without going through the security controls established within the system. (This system processed payments for the Medical Assistance Program, CFDA 93.778 and 93.778A.)<sup>25</sup> These technical staff needed direct access to the data to support the system's continued operation and availability. For example, they may need to fix processing errors or modify data that would be time consuming to correct through a system change.

The Office of Enterprise Technology's policy requires agencies to "log system events of critical information assets for the purposes of security monitoring, investigation, and compliance activities."<sup>26</sup> To ensure appropriate response to logged events, best practices require review of the log by employees independent of the changes made. Without logging and monitoring all employees' access, the department had no assurance that employees only made authorized changes.

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<sup>23</sup> See Appendix A for the federal award numbers for these programs.

<sup>24</sup> Office of the Legislative Auditor's Financial Audit Division Report 10 – 34, *Department of Human Services, Healthcare Provider Payment Controls* – Finding 4.

<sup>25</sup> See Appendix A for the federal award numbers for these programs.

<sup>26</sup> Office of Enterprise Technology Policy TC03.

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*Recommendation*

- *The department should log and monitor all changes to critical Medicaid management information system files.*

## Finding 7

**Prior Finding Partially Resolved: The Department of Human Services did not consistently document all elements of the programming changes made to the Medicaid Management Information System.**

The department did not have all documentation it required to support changes it made to the Medicaid Management Information System. (This system processed payments for the Medical Assistance Program, CFDA 93.778 and 93.778A.)<sup>27</sup> Three of 25 programming changes we reviewed did not have all of the required types of documentation; each of them was missing either a testing plan, the testing results, or the approval to implement the change. In response to a prior finding,<sup>28</sup> the department developed new policies that required those requesting system changes to attach additional documentation in the change request database to demonstrate that the change had been tested to ensure it worked as intended and final authorization for implementation in the system. The department frequently made changes to the system to improve business processes, to comply with new legislative mandates, to modify reports, or to change edits. Without the documentation, the department was unable to demonstrate that those changes had the intended impact.

*Recommendation*

- *The department should ensure that programming changes to the Medicaid Management Information System have sufficient documentation to move the change into the production environment.*

## Finding 8

**Prior Finding Not Resolved: The Department of Human Services did not sufficiently review a key payroll report.**

The department did not sufficiently review the payroll register to ensure the accuracy of wages and verify that staff posted payroll expenditures to the correct accounts on the state's accounting system.<sup>29</sup> During fiscal year 2011, the payroll

<sup>27</sup> See Appendix A for the federal award numbers for these programs.

<sup>28</sup> Office of the Legislative Auditor's Financial Audit Division Report 10 – 34, *Department of Human Services*, Healthcare Provider Payment Controls – Finding 4.

<sup>29</sup> This finding affects all major federal programs identified in Table 1. See Appendix A for the federal award numbers for these programs. It also applies to federal programs that were major programs in fiscal year 2009, but not in fiscal years 2010 and 2011, including Adoption Assistance (CFDA 93.659), Substance Abuse (CFDA 93.959), and Children's Health Insurance Program (CFDA 93.767).

staff's review of the report did not include verification of adjustments, special pay rates, overtime, and benefit allocations. State policy requires agencies to review the payroll register to identify any errors in the hours or rates that the department may need to correct.<sup>30</sup> The payroll register report shows the current pay period's earnings codes, hours, pay rates, adjustments, lump-sum payments, and expense reimbursements. By not performing the level of review required by policy, the department may incorrectly charge payroll costs to federal programs.

*Recommendation*

- *The department should review the payroll register report each pay period to verify the accuracy of payroll transactions.*

**The departments of Human Services and Management and Budget did not accurately record the drug rebates in the preliminary *Schedule of Expenditures of Federal Awards* and notes to the schedules.**

## Finding 9

The departments of Human Services and Management and Budget did not have adequate internal controls in place to ensure they reported financial activity of the medical assistance program (CFDA 93.778 and 93.778A)<sup>31</sup> in the preliminary *Schedule of Expenditures of Federal Awards* consistent with the amounts reported in the state's financial statements. They recorded an amount for the rebates receivable from drug manufacturers that overstated the regular medical assistance expenditures by \$65 million and understated the American Recovery and Reinvestment Act medical assistance expenditures by \$2.3 million. In addition, the departments reported in the notes to the *Schedule of Expenditures of Federal Awards* an amount for the drug rebates that exceeded, by \$11.7 million, the drug rebate amounts used to calculate the programs' federal expenditures presented in the schedule. After our audit adjustments, the departments correctly reported the medical assistance expenditures and drug rebates in the fiscal year 2011, *Financial and Compliance Report on Federally Assisted Programs* report.

*Recommendation*

- *The departments of Human Services and Management and Budget should develop controls to ensure the accurate reporting on the Schedule of Expenditures of Federal Awards and corresponding notes.*

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<sup>30</sup> Department of Management and Budget's policy PAY0028 *Agency Verification of Payroll and Human Resources Transactions*.

<sup>31</sup> See Appendix A for the federal award numbers for these programs.

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## Finding 10

**Prior Finding Not Resolved: The Department of Human Services did not communicate all federal award information to the subrecipients and did not require subrecipients to provide the Data Universal Numbering System (DUNS) number.**

The department did not identify to subrecipients at the time of the grant award the federal award name and number for the following programs: Medical Assistance (CFDA 93.777, 93.778 and 93.778A), Child Care Cluster (CFDA 93.575, 93.596, and 93.713), Child Support Enforcement (CFDA 93.563 and 93.563A), Social Services Block Grants (CFDA 93.667), Foster Care (CFDA 93.658 and 93.658A), Temporary Assistance for Needy Families (CFDA 93.558 and 93.714), and Supplemental Nutrition Assistance Program (CFDA 10.551 and 10.561).<sup>32</sup> Federal regulations require the department to provide the federal award name and number to all subrecipients as part of its subaward application process.<sup>33</sup> The department had expected that the state's new accounting system, implemented in July 2011, would facilitate its notification responsibilities; however, it did not.

In addition, the department did not require subrecipients to submit their DUNS (Data Universal Numbering System) numbers as required by the federal regulations.<sup>34</sup>

### *Recommendations*

- *The department should identify to the subrecipient, at the time of the award, the federal award name and number.*
- *The department should require the DUNS numbers from subrecipients when making subawards.*

## Finding 11

**Prior Finding Partially Resolved: The Department of Human Services did not submit its Medical Assistance reports in a timely manner and had an error in its Temporary Assistance to Needy Families Financial Report.**

The department did not ensure the timeliness of reports for its Medical Assistance Program (CFDA 93.778 and 93.778A).<sup>35</sup> The department did not meet the 30-day reporting requirement for filing the *Quarterly Statement of Expenditures for the*

<sup>32</sup> See Appendix A for the federal award numbers for these programs.

<sup>33</sup> 2 CFR section 176.210(c) and Office of Management and Budget A-133 Circular § .400(d).

<sup>34</sup> 2 CFR section 25.200 and Appendix A to 2 CFR part 25.

<sup>35</sup> See Appendix A for the federal award numbers for these programs. In fiscal year 2011, the Children's Health Insurance Program (CFDA 93.767, federal award numbers 0905MN5021 and 1005MN5021) was not a major federal program; however, in fiscal year 2009, when it was a major federal program, we found that the department had not submitted reports to the federal government by the required date. We reported this finding in the Office of the Legislative Auditor, Financial Audit Division, reports 10-11, *Department of Human Services Federal Compliance Audit*, issued March 18, 2010, finding 8 and 11-13, *Department of Human Services Federal Compliance Audit*, issued May 6, 2011, finding 8. In our fiscal year 2011 audit, as part of our required follow-up of prior audit findings, we concluded that the department did not resolve the finding. The department submitted two quarterly CMS-21 reports late by 9 and 17 days.

*Medical Assistance Program* reports to the federal government.<sup>36</sup> During fiscal year 2011, the department electronically filed the reports from 5 to 20 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.

In addition, the department overstated the total June 30, 2011, expenditures in the June 30, 2011 *Temporary Assistance to Needy Families Financial Report*<sup>37</sup> by \$2.4 million (CFDA 93.558 and 93.714).<sup>38</sup> Because of an error in the electronic worksheet's formula, the department reported the expenditures on basic assistance at \$35.3 million when it should have reported \$32.9 million. An effective supervisory review of the worksheet could have detected the error.

#### *Recommendations*

- *The department should improve its reporting process to ensure prompt submission of its federal reports.*
- *The department should ensure it accurately completes the required reports.*

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<sup>36</sup> CMS-64 report.

<sup>37</sup> ACF-196 report.

<sup>38</sup> See Appendix A for the federal award numbers for these programs.

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**Appendix A**  
**Major Federal Programs**  
**Department of Human Services**  
**Fiscal Year 2011**

<b>CFDA</b> <sup>1</sup>	<b>Program Name</b>	<b>Federal Award Number</b>
<u>Food and Nutrition Services Cluster</u> <sup>2</sup>		
10.551	Supplemental Nutrition Assistance Program Benefits	2011IS601842, 2011IS604542, 2010IS601842, 2010IS604542
10.551 A	Supplemental Nutrition Assistance Program Benefits – ARRA <sup>3</sup>	2011ID282142, 2011ID281142, 2010ID282142, 2010ID281142
10.561	Supplemental Nutrition Assistance Program Administrative Funds	2011IS251442, 2011IS251942, 2011IS252042, 2011IS803642, 2010IS252042, 2010IS251442, 2010IS803642, 2011E251842, 2010IE251842, 2010IQ270342, 2010IS251942, 2011IE251842, 2011IQ390342
<u>Temporary Assistance for Needy Families Cluster</u>		
93.558	Temporary Assistance for Needy Families	1102MNTANF, 1002MNTANF, 0602MNTANF, 0802MNTANF
93.714	Temporary Assistance for Needy Families State Programs – ARRA	1001MNTAN2
93.563	Child Support Enforcement	0904MN4004, 1004MN4004, 0804MN4004
93.563 A	Child Support Enforcement – ARRA	1004MN4002, 1104MN4004
<u>Child Care Cluster</u>		
93.575	Child Care and Development Block Grant	1102MNCCDF, 1001MNCCDF
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Same as above
93.713	Child Care and Development Block Grant – ARRA	0901MNCCD7
93.658	Foster Care – Title IV-E	1101MN1401, 1001MN1401
93.658 A	Foster Care – Title IV-E – ARRA	1101MN1402, 1001MN1402, 1101MN1404
93.667	Social Services Block Grant	1001MNSOSR, , 1101MNSOSR
<u>Medicaid Cluster</u>		
93.777	State Survey and Certification of Health Care Providers and Suppliers	1005MN5001, 1105MN5001
93.778	Medical Assistance Program	1005MN5028, 1105MN5028, 1005MN5048, 1105MN5048,
93.778 A	Medical Assistance Program – ARRA	1105MN5078, 1005MN5038, 1105MN5038, 1005MNM5039, 1005MN5058, 1105MN5058, 1105MN5068

<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.

Source: Department of Human Services' staff.







Minnesota Department of **Human Services**

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March 21, 2012

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 titled "Federal Compliance Audit" for the fiscal year ended June 30, 2011. 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. Given the number of repeat findings in this year's audit, we have asked the Internal Audits Office to take a proactive role in resolving these issues. Progress will be monitored until full resolution has occurred. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

*/s/ Lucinda E. Jesson*

Lucinda E. Jesson  
Commissioner

Enclosure

**Department of Human Services  
Response to the Legislative Audit Report titled  
Federal Audit Compliance  
For the Period July 1, 2010, through June 30, 2011**

**Audit Finding #1**

Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

**Audit Recommendation #1**

*The department 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.*

**Agency Response to Audit Finding #1**

The department agrees with this finding and recommendation. We have begun the process of identifying and analyzing risks related to federal program compliance, building off work already completed in this area by Financial Operations. Once completed and documented, we believe this comprehensive risk assessment will guide us as we continue to monitor and improve our control environment in this area.

Person Responsible: Gregory Gray, Chief Compliance Officer  
Estimated Completion Date: March 31, 2013

**Audit Finding #2**

Prior Finding Partially Resolved: The Department of Human Services did not fully implement controls to ensure it complied with eligibility requirements for two federal programs and did not monitor system overrides for three major programs.

**Audit Recommendation #2-1**

*The department should continue its quality review process to ensure compliance with federal eligibility requirements.*

**Agency Response to Audit Finding #2-1**

The department agrees with this finding and recommendation. We will continue to refine and improve our process of conducting eligibility reviews for all federal programs, and will work diligently to resolve this issue for our Temporary Assistance for Needy Families and Child Care Assistance programs.

Person Responsible: Gary L. Johnson, Director of Internal Audits  
Estimated Completion Date: March 31, 2012

**Audit Recommendation #2-2**

**Department of Human Services  
Response to the Legislative Audit Report titled  
Federal Audit Compliance  
For the Period July 1, 2010, through June 30, 2011**

*The department should monitor the specific eligibility overrides related to the Child Care Assistance, Temporary Assistance for Needy Families, and Medical Assistance programs.*

**Agency Response to Audit Finding #2-2**

The department agrees with the finding and recommendation. Staff from our Child Care Assistance, Temporary Assistance for Needy Families, and Medical Assistance programs will do monthly sampling of override reports to ensure issues have been resolved appropriately, and to identify unusual trends, errors or potential fraud.

Persons Responsible:	Mary Orr, Director of Community Partnerships and Child Care Services Mark Toogood, Director of Transition to Economic Stability Karen Gibson, Director of Health Care and Eligibility and Access
Estimated Completion Date:	September 30, 2012

**Audit Finding #3**

The Department of Human Services allocated some costs to federal programs that may not have been allowable for federal reimbursement.

**Audit Recommendations for #3**

*The department should work with the federal government to determine the allowability of the contract settlement payment and related litigation costs.*

*The department should reduce its fiscal year 2011 allocation of nuclear power plant emergency preparedness costs and any future cost allocation, by the fees it received from the nuclear power company for that purpose.*

*The department should have adequate controls in place to ensure capital expenditures are not allocated to federal programs when purchased, but allocated through depreciation expenses or use allowances over their useful lives.*

**Department of Human Services  
Response to the Legislative Audit Report titled  
Federal Audit Compliance  
For the Period July 1, 2010, through June 30, 2011**

**Agency Response to Audit Finding #3**

The department will re-confirm with the federal government the allowability of the contract settlement payment and related litigation costs. The department will reduce its fiscal year 2011 allocation, and subsequent allocations, by funds the State receives from the nuclear power plant for that purpose. The department will implement controls to ensure capital expenditures are not allocated to federal programs when purchased, but allocated through depreciation expenses or use allowances over their useful lives.

Person Responsible: Marty Cammack, Financial Operations Director  
Estimated Completion Date: June 30, 2012

**Audit Finding #4**

The Department of Human Services did not adequately monitor the counties efforts to detect fraudulent child care payments and ensure they properly recovered the payments.

**Audit Recommendation #4**

*The department should ensure counties are making adequate efforts to identify and collect fraudulent child care payments.*

**Agency Response to Audit Finding #4**

The department agrees with the finding and recommendation. The department will develop and implement a plan to monitor counties efforts to detect fraudulent child care payments and ensure counties engage in collection efforts to recover those payments. The plan will include development of reports to assist the state and counties in detecting possible fraud and to identify and monitor overpayments coded as fraud.

Persons Responsible: Mary Orr, Director of Community Partnerships and Child Care Services  
Vicki Kunerth, Deputy Inspector General  
Estimated Completion Date: September 30, 2012

**Audit Finding #5**

The Department of Human Services did not regularly reconcile the federal funds received for electronic benefit transfers, as shown on the bank statements to the state's accounting system

**Audit Recommendation #5**

*The department should regularly reconcile federal deposits for food benefits to receipt transactions in the state's accounting system.*

**Department of Human Services  
Response to the Legislative Audit Report titled  
Federal Audit Compliance  
For the Period July 1, 2010, through June 30, 2011**

**Agency Response to Audit Finding #5**

The department agrees with the recommendation and will develop a regular reconciliation process.

Person Responsible: Marty Cammack, Financial Operations Director  
Estimated Completion Date: June 30, 2012

**Audit Finding #6**

Prior Finding Partially Resolved: The Department of Human Services did not log or monitor all direct changes to critical Medicaid Management Information System files.

**Audit Recommendation #6**

*The department should log and monitor all changes to critical Medicaid management information system files.*

**Agency Response to Audit Finding #6**

The department agrees with this finding and has identified the logonid which, because of the location within the ACF2 rule and the way the dataset name was masked, was not identified previously. The finding was resolved by moving the line in the rule and changing the dataset mask.

Person Responsible: Scott Peterson, Director of Medicaid Management Information Systems  
Estimated Completion Date: March 1, 2012

**Audit Finding #7**

Prior Finding Partially Resolved: The Department of Human Services did not consistently document all elements of the programming changes made to the Medicaid Management Information System.

**Audit Recommendation #7**

*The department should ensure that programming changes to the Medicaid Management Information System have sufficient documentation to move the change into the production environment.*

**Agency Response to Audit Finding #7**

The department agrees with this finding and is continuing to improve the process to ensure that documentation is provided for all changes. Clearquest changes have been implemented and staff will continue to be trained on the new process to ensure successful implementation.

**Department of Human Services  
Response to the Legislative Audit Report titled  
Federal Audit Compliance  
For the Period July 1, 2010, through June 30, 2011**

Person Responsible: Scott Peterson, Director of Medicaid Management Information Systems  
Estimated Completion Date: March 31, 2012

**Audit Finding #8**

Prior Finding Not Resolved: The Department of Human Services did not sufficiently review a key payroll report.

**Audit Recommendation #8**

*The department should review the payroll register report each pay period to verify the accuracy of payroll transactions.*

**Agency Response to Audit Finding #8**

The department agrees with the recommendation. DHS is currently reviewing and documenting payroll duties. As part of this documentation, DHS will review the process currently being followed when reviewing the payroll register and determine additional steps to be added to the review.

Person Responsible: Marty Cammack, Financial Operations Director  
Estimated Completion Date: June 30, 2012

**Audit Finding #9**

The departments of Human Services and Management and Budget did not accurately record the drug rebates in the preliminary Schedule of Expenditures of Federal Awards and notes to the schedules.

**Audit Recommendation #9**

*The departments of Human Services and Management and Budget should develop controls to ensure the accurate reporting on the Schedule of Expenditures of Federal Awards and corresponding notes.*

**Agency Response to Audit Finding #9**

The department agrees with the recommendation. The department will continue to work with MMB to evaluate our process for preparing and reviewing schedules of financial data submitted for preparation of the Schedule of Expenditures of Federal Awards and corresponding notes. The department will continue to evaluate our process for preparing these schedules to identify areas where additional reviews will improve internal controls over reports.

Person Responsible: Marty Cammack, Financial Operations Director  
Estimated Completion Date: December 31, 2012

**Department of Human Services  
Response to the Legislative Audit Report titled  
Federal Audit Compliance  
For the Period July 1, 2010, through June 30, 2011**

**Audit Finding #10**

Prior Finding Not Resolved: The Department of Human Services did not communicate all federal award information to the subrecipients and did not require subrecipients to provide the Data Universal Numbering System (DUNS) number.

**Audit Recommendations for #10**

*The department should identify to the subrecipient, at the time of the award, the federal award name and number.*

*The department should require the DUNS numbers from subrecipients when making subawards.*

**Agency Response to Audit Finding #10**

The department agrees with the recommendation to provide the federal award name and number to subrecipients through publication of that information in an annual bulletin effective January of 2012.

The department will require the DUNS numbers from subrecipients on grants where the federal agency has implemented OMB guidance through regulation or in policy and procedural issuances.

Person Responsible: Marty Cammack, financial Operations Director  
Estimated Completion Date: June 30, 2012

**Audit Finding #11**

Prior Finding Partially Resolved: The Department of Human Services did not submit its Medical Assistance reports in a timely manner and had an error in its Temporary Assistance to Needy Families Financial Report

**Audit Recommendations for #11**

*The department should improve its reporting process to ensure prompt submission of its federal reports.*

*The department should ensure it accurately completes the required reports.*

**Agency Response to Audit Finding #11**

The department agrees with the recommendation and will continue to work at improving processes to complete and submit federal reports accurately and timely.

Person Responsible: Marty Cammack, Financial Operations Director  
Estimated Completion Date: June 30, 2012