



FINANCIAL AUDIT DIVISION REPORT

**Department of
Human Services**

Federal Compliance Audit

Year Ended June 30, 2014

March 24, 2015

Report 15-07

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Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization’s internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
Adequate	The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Generally Adequate	With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Not Adequate	The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 24, 2015

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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 2014. 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 department staff on March 13, 2015. This audit was conducted by David Poliseno, CPA, CISA, CFE (Audit Manager) and Laura Wilson, CPA, CISA (Auditor-in-Charge); assisted by Michelle Bilyeu; Tyler Billig, CPA; Jordan Bjonfald, CPA; Scott Dunning; Nicholas Ludwig, CPA; Carmen Marg-Patton, CPA; Heather Rodriguez; Kathy Rootham; Valentina Stone, CPA; Melissa Strunc; and David Westlund, CPA, CISA, CISSP.

We received the full cooperation of the Department of Human Services 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 legal requirements applicable to its major federal programs for fiscal year 2014. However, as noted in Finding 1, the department did not comply with and did not have adequate internal controls to comply with federal eligibility requirements for the Medical Assistance, Children's Health Insurance, Temporary Assistance for Needy Families, and the Child Care and Development Fund programs. Also, as a result of the weaknesses in eligibility controls, we conclude that the department did not comply with and did not have adequate internal controls to comply with federal allowable costs and activities requirements for the Medical Assistance and the Children's Health Insurance programs and allowable costs for the Temporary Assistance for Needy Families, and the Child Care and Development Fund programs. In addition, the department had other internal control weaknesses and instances of noncompliance, including three findings repeated from our prior report,¹ as noted in the findings in this report.

Audit Findings

- The Department of Human Services did not adequately ensure that recipients receiving benefits met the eligibility requirements for Medical Assistance, Children's Health Insurance, Temporary Assistance for Needy Families, Child Care and Development Fund, and Supplemental Nutrition Assistance programs. This is a repeat finding. ([Finding 1, page 7](#))
- The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal internal control requirements for several federal programs. This is a repeat finding. ([Finding 2, page 11](#))
- The Department of Human Services did not consistently ensure county workers with access to the department's computer systems needed the access. ([Finding 3, page 13](#))
- The Department of Human Services did not correctly allocate \$936,072 in costs according to its federally approved cost allocation plan, causing the department to claim \$457,931 more in federal reimbursement than allowed. ([Finding 4, page 14](#))

¹ Office of the Legislative Auditor, Financial Audit Division Report 14-11, *Department of Human Services Federal Compliance Audit*, issued March 26, 2014.

- The Department of Human Services did not always perform licensing visits to child care facilities in a timely manner. This is a repeat finding. ([Finding 5, page 15](#))

Audit Scope

Our scope included programs we determined to be major federal programs for the State of Minnesota for fiscal year 2014, including: Supplemental Nutrition Assistance Program Cluster, Temporary Assistance for Needy Families Cluster, Child Support Enforcement, Child Care and Development Fund Cluster, Foster Care, Social Services Block Grant, Children's Health Insurance Program, and Medicaid Cluster.²

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

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.³ Table 1 identifies these major federal programs at the Department of Human Services.

Table 1
Department of Human Services
Major Federal Programs
Fiscal Year 2014
(in thousands)

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Expenditures</u>
	<u>Supplemental Nutrition Assistance Program Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	\$ 706,486
10.561	State Administrative Matching Grants	68,009
	<u>Temporary Assistance for Needy Families Cluster</u>	
93.558	Temporary Assistance for Needy Families	212,874
93.563	<u>Child Support Enforcement</u>	116,829
	<u>Child Care and Development Fund Cluster</u>	
93.575	Child Care and Development Block Grant	58,317
93.596	Child Care Mandatory and Matching Funds	68,460
93.658	<u>Foster Care – Title IV-E</u>	45,811
93.667	<u>Social Services Block Grant</u>	31,272
93.767	<u>Children’s Health Insurance Program</u>	34,491
	<u>Medicaid Cluster</u>	
93.775	State Medical Fraud Control Units ²	1,128
93.777	State Survey and Certification of Health Care Providers and Suppliers ³	14,194
93.778	Medical Assistance Program	5,565,916

¹ 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*.

² The Office of Attorney General is responsible for the State Medical Fraud Control Units and spent the \$1,127,992.

³ Both the departments of Human Services and Health spent State Survey and Certification of Health Care Providers and Suppliers funds: \$5,986,814 and \$8,206,940, respectively.

Source: Fiscal Year 2014 Schedule of Expenditures of Federal Awards.

³ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the U.S. Office of Management and Budget’s *Circular A-133* as a program or cluster of programs whose expenditures for fiscal year 2014 exceeded \$30 million.

The U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement* describes the programs as follows:

- Supplemental Nutrition Assistance Program Cluster assists low income households in buying food needed for good health.
 - Temporary Assistance for Needy Families Cluster provides time-limited assistance to low income families with children so the children can be cared for in their own homes or with relatives; promotes job preparation, work and marriage for the parents; and helps reduce out-of-wedlock pregnancies.
 - Child Support Enforcement enforces obligations owed by noncustodial parents, locates absent parents, establishes paternity, and obtains child and spousal support. Minnesota counties administer this program, and the department reimburses the counties for their costs incurred.
 - Child Care and Development Fund Cluster provides funds to child care providers on behalf of low income individuals and families to increase the availability, affordability, and quality of child care services.
 - Foster Care provides safe, appropriate, 24-hour, substitute care for children needing temporary placement and care outside their homes. Minnesota counties administer this program, and the department reimburses the counties for costs they incur.
 - Social Services Block Grant provides services for individuals, families, and entire population groups to (1) prevent, reduce, or eliminate dependency; (2) achieve or maintain self-sufficiency; (3) prevent neglect, abuse, or exploitation of children and adults; (4) prevent or reduce inappropriate institutional care; and (5) secure admission or referral for institutional care when other forms of care are not appropriate. Minnesota counties administer this program, and the department reimburses the counties.
 - Children's Health Insurance Program provides payments to medical providers on behalf of certain low-income children and pregnant women.
 - Medicaid Cluster provides payments to medical providers on behalf of low-income persons.
-

Other Audits

In November 2014, we issued a report on the department's oversight responsibility for ensuring that people who enrolled in a state public health care program through MNsure⁴ met federal and state eligibility requirements for the program in which they were enrolled.⁵ In fiscal year 2014, through April 2014, the state spent approximately \$376 million of benefits paid for new recipients enrolling through MNsure.

The audit concluded that the Department of Human Services did not ensure that Medical Assistance, MinnesotaCare, and Children's Health Insurance Program recipients who enrolled through MNsure were eligible for the benefits they received and that the department did not ensure that data accurately and securely transferred from MNsure into the state's medical payment system.

In February 2015, we issued an evaluation report on the Minnesota Health Insurance Exchange (MNsure). The report noted that the Department of Human Services postponed eligibility reviews for people who had enrolled in public health care programs before October 2013.⁶ This process, also known as redetermination, requires the department to ensure that recipients currently receiving benefits still meet the eligibility requirements on their annual renewal date. Although the department received a waiver from the federal government to delay redeterminations, the delays are not in compliance with state law, which requires that a redetermination of eligibility must occur every 12 months.⁷

The delays in redetermining recipient eligibility increased the risk that the department would use both federal and state money to pay for benefits on behalf of ineligible recipients. We discuss this further in Finding 1.

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 2014. 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

⁴ MNsure is the name of the online health insurance exchange the state developed under the Affordable Care Act.

⁵ Office of the Legislative Auditor, Financial Audit Division Report 14-22, *Department of Human Services Oversight of MNsure Eligibility Determinations for Public Health Care Programs*, issued November 12, 2014.

⁶ Office of the Legislative Auditor, Program Evaluation Division Report, *Minnesota Health Insurance Exchange (MNsure)* pp. 45-46, issued February 17, 2015.

⁷ *Minnesota Statutes* 2014, 256B.056, subd. 7.

applicable to each of its federal programs.⁸ 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 legal requirements applicable to its major federal programs for fiscal year 2014. However, as noted in Finding 1, the department did not comply with and did not have adequate internal controls to comply with federal eligibility requirements for the Medical Assistance, Children's Health Insurance, Temporary Assistance for Needy Families, and the Child Care and Development Fund programs. Also, as a result of the weaknesses in eligibility controls, we conclude that the department did not comply with and did not have adequate internal controls to comply with federal allowable costs and activities requirements for the Medical Assistance and the Children's Health Insurance programs and allowable costs for the Temporary Assistance for Needy Families, and the Child Care and Development Fund programs. In addition, the department had other internal control weaknesses and instances of noncompliance, including three findings repeated from our prior report,⁹ as noted in the findings in this report.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of 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 internal control weaknesses and noncompliance.

⁸ 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 12, 2014, on the State of Minnesota's basic financial statements for the year ended June 30, 2014. 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, Financial Audit Division Report 15-02, *Report on Internal Control Over Financial Reporting*, issued February 19, 2015.)

⁹ Office of the Legislative Auditor, Financial Audit Division Report 14-11, *Department of Human Services Federal Compliance Audit*, issued March 26, 2014.

Findings and Recommendations

The Department of Human Services did not adequately ensure that recipients receiving benefits met the eligibility requirements for Medical Assistance, Children’s Health Insurance, Temporary Assistance for Needy Families, Child Care and Development Fund, and Supplemental Nutrition Assistance programs. This is a repeat finding.¹⁰

Finding 1

In fiscal year 2014, the department continued to have deficiencies in its processes to determine recipients’ eligibility for the benefits they received through several federal programs.¹¹ The department generally works in coordination with the counties to determine eligibility for these programs, although the implementation of the state’s health insurance exchange (MNsure) in October 2013 changed the process for the Medical Assistance and Children’s Health Insurance programs.

The department had the following weaknesses in its eligibility oversight processes:

Insufficient action taken in response to high error rates – As part of its oversight of the eligibility determinations made by county workers for the Temporary Assistance for Needy Families¹² and the Child Care and Development Fund¹³ programs, the department reviews the documentation for a sample of cases for each federal program. The reviews include whether the county worker complied with the department’s policies and procedures, and whether the eligibility determinations were correct. Through its sample case reviews, the department can identify changes needed in its policies, procedures, and training to help county workers avoid future errors, and can recover identified overpayments.

Although the department developed guidance to assist county workers in making eligibility determinations for the Temporary Assistance for Needy Families (CFDA 93.558)¹⁴ program, it had not developed a process to use the information obtained through its sample case reviews. The department’s case reviews found that county workers had not followed certain policies and procedures when determining eligibility for 137 of 240 recipients (57 percent). The department’s

¹⁰ Office of the Legislative Auditor, Financial Audit Division Report 14-11, *Department of Human Services Federal Compliance Audit*, (Finding 5) issued March 26, 2014.

¹¹ For more than 10 years, we have reported deficiencies in the state’s oversight of eligibility determinations.

¹² *Minnesota Statutes* 2014, chapter 256J, provides the basis for Temporary Assistance for Needy Families eligibility determinations.

¹³ *Minnesota Statutes* 2014, chapter 119B, provides the basis for Child Care and Development program eligibility determinations.

¹⁴ See Appendix A (page 17) for federal award numbers for this program.

testing identified various deficiencies. For example, in some cases, the county worker's documentation did not show adequate verification of household member relationships or assets, had incomplete applications or inconsistent information, or was missing identity documents.

For the Child Care and Development Fund Cluster programs (CFDA 93.575 and 93.596),¹⁵ the department had taken steps to reduce the types of errors found through its sample case reviews, but its fiscal year 2014 sample case reviews did not yet show significant reductions in the error rates. Department staff told us that they expected to see the full effect of their error reduction efforts starting in July 2014. Steps the department took to reduce errors found through its sample case reviews included:

- webinars in December 2013 for county staff about the most frequent types of errors,
- meetings with staff at several counties from November 2013 through February 2014,
- updated curriculum for training of new county staff starting in 2014, and
- ongoing clarification of various policies in program manuals used by county workers.

In its fiscal year 2014 sample case reviews for the Child Care Cluster programs, the department continued to find high rates of error, especially with county workers' ability to support the maximum number of childcare hours they authorized for a specific recipient. The department found that in 103 of 150 cases reviewed, or 69 percent, county workers did not obtain or retain sufficient documentation to support the authorized childcare hours,¹⁶ or they incorrectly determined family copayments.¹⁷ Our testing of 20 cases reviewed by the department identified 2 instances where overpayments occurred (one for \$156 and the other for \$8) because the county workers miscalculated the families' overall income that resulted in incorrect bi-weekly copayment amounts.

¹⁵ *Ibid.*

¹⁶ These errors did not necessarily result in over- or under-payments to child care providers because those payments are based on the actual hours of childcare services scheduled, which may have been less than the correct maximum number. Examples of the missing documentation included work and school schedules, along with wage information, or verification of residency, relationship, identity, student income, and unearned income.

¹⁷ The amount of family copayments paid to childcare providers depends on the overall family income and size.

Ineffective file matching process to monitor changes in recipients'

eligibility – The department had not made changes to its automated eligibility system¹⁸ to better use file matches to identify income and eligibility discrepancies that had a higher risk of affecting eligibility for the Temporary Assistance for Needy Families and Supplemental Nutrition Assistance (CFDA 10.551)¹⁹ programs. As required by federal regulations, the department periodically matches recipients' social security numbers and reported incomes to electronic data files at the Internal Revenue Service, Social Security Administration, and Minnesota Department of Employment and Economic Development.²⁰ Because the file matches identify many discrepancies (about 346,000 during fiscal year 2014), we have been skeptical about the diligence of county workers' resolution efforts.

In our previous audit, we recommended that the department²¹ improve its monitoring of counties' resolution of these discrepancies to ensure they are effective and that recipients were eligible for the benefits they received through these programs. We also recommended that they make changes to the file match process so that it better identified discrepancies that have a higher risk of affecting a recipient's eligibility or level of benefits. Although the department submitted a request to the state's information technology office to change the automated eligibility system,²² as of January 2015, the changes were not expected to be implemented until some time in fiscal year 2016.

Inadequate oversight of recipient eligibility determined through the state's health insurance exchange

– As mentioned earlier in this finding, the eligibility determination process for new enrollees in Medical Assistance (CFDA 93.778) and the Children's Health Insurance Program (CFDA 93.767) changed when the state implemented its health insurance exchange (MNsure) in October 2013.²³ The federal Patient Protection and Affordable Care Act requires that MNsure rely on the federal data hub to verify applicants' information as a basis for eligibility.

¹⁸ The department's automated eligibility system for the Temporary Assistance for Needy Families and Supplemental Nutritional Assistance programs is MAXIS.

¹⁹ See Appendix A (page 17) for federal award numbers for this program.

²⁰ 45 CFR, sec. 205.55 and 205.56 (a)(1)(iv) for the Temporary Assistance for Needy Families program, and 7 CFR, sec. 273.2 (f)(9) for Supplemental Nutrition Assistance Program.

²¹ Office of the Legislative Auditor, Financial Audit Division Report 13-05, *Department of Human Services Information Verification in Eligibility Determinations*, (Finding 2) issued March 26, 2013.

²² In fiscal year 2014, the department used an automated eligibility system called MAXIS for Temporary Assistance for Needy Families, and Supplemental Nutrition Assistance programs. In fiscal year 2014, the department transitioned eligibility for the Medical Assistance program to its health insurance exchange, MNsure, which it implemented on October 1, 2013.

²³ See Appendix A (page 17) for federal award numbers for these programs.

In November 2014, we issued a report that concluded that the department had not ensured that Medical Assistance, MinnesotaCare (a state program partially funded with Medical Assistance money), and Children's Health Insurance Program recipients who enrolled through MNsure were eligible for the benefits they received. The report identified many instances where the department had not complied with the federal and state legal requirements related to recipients' eligibility. Significantly, 17 percent of the 193 people we tested were not eligible for the public health care program in which they were enrolled. The report included recommendations to the department to improve its oversight processes.

Lack of recipient eligibility redeterminations – In February 2015, we issued a report evaluating the state's development of MNsure.²⁴ That report disclosed that, contrary to federal and state requirements, the department had not annually redetermined the eligibility of recipients who had enrolled in Medical Assistance or the Children's Health Insurance programs before the state implemented MNsure in October 2013.²⁵ In December 2014, the department received an extension to its waiver from the federal government to delay redeterminations. The extension allowed the department to delay redeterminations for some recipients to November 2015. Despite this waiver of the federal redetermination requirements, the department had not complied with state law that requires a redetermination of recipient eligibility every 12 months. These delays increase the risk that the department would use both federal and state money to pay for benefits on behalf of ineligible recipients.

While verifying the eligibility of people enrolled in these programs is challenging, it is one of the department's essential and fundamental responsibilities to ensure compliance with federal and state laws.

Recommendations

- *The department's Temporary Assistance for Needy Families program policy staff should use the errors found by the internal audit division to develop a process that educates the county workers and ensures only eligible recipients receive benefits.*
- *The department's Child Care Assistance Program staff should continue its efforts to train county workers to ensure only eligible recipients receive benefits and the benefits authorized are accurate.*

²⁴ Office of the Legislative Auditor, Program Evaluation Division Report, [Minnesota Health Insurance Exchange \(MNsure\)](#), issued February 17, 2015.

²⁵ *Ibid.*, pages 45-46.

- *The department should consider changes to the automated eligibility system to better identify higher risk income and eligibility discrepancies for Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs.*

The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal internal control requirements for several federal programs. This is a repeat finding.²⁶

Finding 2

The department had not developed and documented comprehensive risk assessments regarding internal controls over federal single audit compliance requirements for five major federal programs. We first reported this finding in 2009.²⁷

The federal government requires states to establish adequate internal controls to ensure states comply with federal statutes, regulations, and the terms of the federal award.²⁸ One component of good internal controls is assessing risks and developing adequate controls to help manage those risks, especially those that could prevent the department from achieving its objectives.²⁹ State policy requires agencies to assess the risks annually.³⁰

Table 2 shows the status of the risk assessments for all the major federal programs as of December 2014.

²⁶ Office of the Legislative Auditor, Financial Audit Division Report 14-11, *Department of Human Services Federal Compliance Audit* (Finding 1), issued March 26, 2014.

²⁷ Office of the Legislative Auditor, Financial Audit Division Report 09-10, *Department of Human Services Federal Compliance Audit* (Finding 1), issued March 26, 2009.

²⁸ 2 *CFR*, sec. 200.303 (a).

²⁹ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government*, September 2014.

³⁰ Minnesota Management and Budget's Statewide Operating Policy 0102-01, *Internal Controls*, and Minnesota Management and Budget's Statewide Operating Procedure 0102-01.2, *Risk Assessment*.

Table 2
Status of Major Federal Program Risk Assessments
As of December 2014

Federal Program¹	CFDA²	Status
Temporary Assistance for Needy Families Cluster	93.558	Completed November 2014
Supplemental Nutrition Assistance Program Cluster	10.551 & 10.561	Completed November 2014
Social Services Block Grant	93.667	Completed January 2013
Child Care and Development Fund Cluster	93.575 & 93.596	Started
Child Support Enforcement	93.563	Started
Medical Assistance Cluster	93.777 & 93.778	Started
Foster Care	93.658	Not Started
Children's Health Insurance	93.767	Not Started

¹ This finding also applies to federal programs that were major federal programs in prior years but not in fiscal year 2014, including Adoption Assistance (CFDA 93.659, federal awards 1201MN1407, 1301MN1407, and 1401MN1407) and Substance Abuse (CFDA 93.959 federal awards 10B1MNSAPT, 11B1MNSAPT, 12B1MNSAPT, and 13B1MNSAPT) programs. As of December 2014 the department had not started these risk assessments.

² See Appendix A (page 17) for the federal award numbers for these programs.

Source: Auditor prepared based on discussions and documents from the department's management and policy staff.

As shown in Table 2 above, the department completed the risk assessment for the Social Services Block Grant program in January 2013; however, it had not done a followup assessment as required. State policies require agencies to annually “determine if changes to the internal and external business environment require updates to the completed risk assessment(s).”³¹

The other findings in this report identify deficiencies in the department's internal control procedures and ongoing 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 for 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 acceptable 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.

³¹ Minnesota Management and Budget's Statewide Operating Procedure 0102-01.2, *Risk Assessment*.

Recommendation

- *The department should complete its review and documentation of its risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to federal programs and annually assess whether the risk assessments need updating.*

The Department of Human Services did not consistently ensure county workers with access to the department’s computer systems needed the access.

Finding 3

The department did not ensure that counties completed the annual recertification of county workers’ access to various state systems.³² County workers need access to these systems if their job duties require them to determine eligibility for public assistance recipients and/or to process payments on behalf of these recipients.³³ The purpose of the annual recertification is to determine if the access provided to county workers is still needed. The department did not have completed recertifications on file for 13 out of 20 counties we reviewed.

Good information technology controls require that entities restrict access to electronic systems to only users who need the access to accomplish assigned tasks. It also requires a periodic review of the access granted to ensure that only current employees with valid business needs have access to the electronic systems.³⁴

By not ensuring that counties recertify that their employees still need the access they have, the department increased the risk that workers who are no longer employed by the counties or who do not have a business need may still have access to the department’s systems.

³² The department’s systems include software applications used by department and county employees to determine the eligibility of recipients on public assistance and process various benefit payments. These subsystems include: Minnesota Eligibility Child Care, MAXIS (the cash and food assistance system), Medicaid Management Information System, Social Services Information System, and PRISM (the child support enforcement system).

³³ This finding applies to the following major federal programs: Supplemental Nutrition Assistance Program (CFDA 10.551), Temporary Assistance for Needy Families (CFDA 93.558), Child Support Enforcement (CFDA 93.563), Child Care and Development Fund Cluster (CFDA 93.575 and 93.596), Foster Care (CFDA 93.658), Social Services Block Grant (CFDA 93.667), Children’s Health Insurance Program (CFDA 93.767), and Medical Assistance Program (CFDA 93.778). See Appendix A (page 17) for federal award numbers for this program.

³⁴ National Institute of Standards and Technology 800-53, Revision 4, Audit Control-6 “Least Privilege,” Control Enhancement (7), and Minnesota Management and Budget’s Statewide Operating Policy, *Security and Access*, Number 1101-07.

Recommendation

- *The department should ensure that all counties annually recertify that their employees have job-related duties corresponding to their access to the department's computer systems.*

Finding 4

The Department of Human Services did not correctly allocate \$936,072 in costs according to its federally approved cost allocation plan, causing the department to claim \$457,931 more in federal reimbursement than allowed.

A state receives reimbursement from the federal government for a share of the administrative expenses incurred by the state in support of federal programs. Federal regulations require a state to claim reimbursement only in accordance with the state's approved cost allocation plan.³⁵ In its cost allocation plan, the state describes how it will identify, measure, and allocate all state administrative expenses.

The department's cost allocation plan groups costs by specific administrative activities or divisions and then allocates the administrative costs to programs that benefited from those activities based on relevant metrics. In fiscal year 2014, the department's cost allocation system allocated over \$380 million in administrative expenses; the federal share of these costs was almost \$180 million.

The department had the following instances where it did not allocate costs in accordance with its cost allocation plan, causing the department to claim \$457,931 more from the federal government than allowable:

- The department included in the administrative costs it allocated to federal programs \$568,440 of costs that are not eligible for federal reimbursement. This error led to the department claiming \$282,873 more in federal reimbursement than allowed, including \$813 for the Children's Health Insurance Program (CFDA 93.767) and \$282,060 for the Medical Assistance Program (CFDA 93.778).³⁶
- The department incorrectly calculated the federal reimbursement of \$24,548 of administrative costs by using a 75% federal reimbursement rate rather than the correct 50% rate. This error led to the department claiming \$6,053 more in federal reimbursement than allowed for the Medical Assistance Program (CFDA 93.778).

³⁵ 45 CFR, sec. 95.517 (a).

³⁶ See Appendix A (page 17) for federal award numbers for these programs.

- The department inadvertently obtained duplicate reimbursement through the cost allocation process for costs totaling \$169,005 that had already been reimbursed by the federal government. The controls to prevent this type of error failed in two isolated instances. These errors led to the department claiming duplicate reimbursement of \$162,540 for the Medical Assistance Program (CFDA 93.778), \$1,855 for the Temporary Assistance for Needy Families Program (CFDA 93.558), and \$4,610 for the Supplemental Nutrition Assistance Program, State Administrative Matching Grants (CFDA 10.561).

Recommendations

- *The department should adjust future reimbursement claims to offset the \$457,931 of questioned costs.*
- *The department should ensure that it uses the correct reimbursement rates for different types of administrative costs.*
- *The department should ensure it does not claim reimbursement for federal expenditures twice.*

The Department of Human Services did not always perform licensing visits to child care facilities in timely manner. This is a repeat finding.³⁷

Finding 5

The department licenses all child care centers in the state of Minnesota. Many child care centers receive federal monies from the department because they provide services to child care assistance program recipients. The department uses money from the Child Care and Development Fund (CFDA 93.575 and 93.596)³⁸ to administer the program. The Child Care and Development Fund allows each state the maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within the State. In the Child Care and Development Fund plan it submits to the federal government,³⁹ the department certifies that procedures are in place to ensure that child care service providers comply with applicable state health and safety requirements.⁴⁰ The plan states

³⁷ Office of the Legislative Auditor, Financial Audit Division Report 14-11, *Department of Human Services Federal Compliance Audit* (Finding 4), issued March 26, 2014.

³⁸ 45 CFR, sec. 98, established the Child Care and Development Fund (CCDF). The purpose of the fund is to increase the availability, affordability, and quality of child care services. This program offers federal funding to states, Indian Tribes, and tribal organizations in order to provide low-income families with necessary child care services and to enhance the quality of child care and early development programs.

³⁹ To the US Health and Human Services' Administration for Children and Family (ACF).

⁴⁰ 45 CFR, sec. 98.41 (d), requires the department to certify that procedures are in effect to ensure that child care service providers comply with applicable health and safety requirements.

that the department's licensing staff will perform site visits to child care providers once every two years to ensure compliance with these requirements.⁴¹

The department did not always perform visits to child care centers once every two years. We selected 38 child care centers for review and found that the department delayed visits beyond two years to 21 child centers, with an average delay of three months. Table 3 below shows the results from our testing:

Table 3
Length of the Delays in Child Care Center Visits

<u>Delay in Visits (in months)</u>	<u>Number of Child Care Centers</u>
2 months or under	6
Between 2 and 4 months	11
Between 5 and 6 months	<u>4</u>
Total number of delayed visits	21

Source: Auditor prepared based on documentation provided by the department's licensing division.

During licensing visits, the state inspectors can verify that the child care centers met requirements pertaining to the prevention and control of infectious diseases, the safety of building and physical premises, and providers' training for basic health and safety practices. Without timely licensing visits, health and safety issues may exist at child care centers and not be detected and corrected.

In response to this finding in our 2013 audit report, the department hired additional staff; those staff were completing training in their site visit duties as of January 2015.

Recommendation

- *The department should ensure it performs site visits and enforces licensing requirements for child care centers within the required two-year period.*

⁴¹ Child Care Development Plan, section 3.1.2.

Appendix A
Major Federal Programs
Department of Human Services
Fiscal Year 2014

CFDA¹	Program Name	Federal Award Number
	<u>Supplemental Nutrition Assistance Program Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	2013ID281142, 2013ID282142, 2013IS601842, 2013IS604542, 2013IS802642, 2014ID281142, 2014ID282142, 2014IS601842, 2014IS604542, 2014IS802642
10.561	State Administrative Matching Grants	2012IS820442, 2013CE251842, 2103IE251842, 2013IS251442, 2013IS251942, 2013IS252042, 2013IS750342, 2013IS803642, 2014OE251842, 2014IE251842, 2014IQ390342, 2014IQ750342, 2014IS251442, 2014IS251942, 2014IS252042, 2014IS803642
93.558	Temporary Assistance for Needy Families Cluster	1302MNTANF, 1402MNTANF
93.563	Child Support Enforcement	1304MN4005, 1404MN4005
	<u>Child Care and Development Fund Cluster</u>	
93.575	Child Care and Development Block Grant	1101MNCCDF
93.596	Child Care Mandatory and Matching Fund	1201MNCCDF, 1301MNCCDF, 1401MNCCDF
93.658	Foster Care – Title IV-E	1301MN1401, 1401MN1401
93.667	Social Services Block Grant	1201MNSOSR, 1301MNSOSR, 1401MNSOSR
93.767	Children’s Health Insurance Program	1105MN5021, 1305MN5021, 1405MN5021
	<u>Medicaid Cluster</u>	
93.775	State Medical Fraud Control Units	G06011301MN5050
93.777	State Health Care Providers Survey	1305MN5001, 1405MN5001
93.778	Medical Assistance Program	1305MN5ADM, 1305MN5MAP, 1305MNINCT, 1405MN5ADM, 1405MN5MAP, 1405MNIMPL, 1405MNINCT

Source: The state accounting system and staff at the Department of Human Services and Office of the Attorney General.



Minnesota Department of **Human Services**

March 19, 2015

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

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the findings in the Department of Human Services Federal Compliance Audit for fiscal year ending June 30, 2014. We appreciate and value the thorough examination of our major federal programs, and appreciated the opportunity to work with your dedicated and professional staff during this audit.

The department has worked hard this past year to improve our overall control environment. We have made significant progress towards fully implementing our comprehensive risk assessment plan, and to address the very difficult and complex issues around program eligibility. We remain committed to fully resolving these issues as we work to fulfill our mission to help people meet their basic needs so they can live in dignity and achieve their highest potential.

While the department has fewer findings and recommendations than last year's report, the Federal Compliance Report for state fiscal year ended June 30, 2014, reminds us that we still have a significant amount of work ahead as we strive to make the necessary improvements in controls over our major federal programs.

Below are the department's responses to the findings and recommendations in the 2014 Federal Compliance Audit.

Audit Finding 1

The Department of Human Services did not adequately ensure that recipients receiving benefits met the eligibility requirements for Medical Assistance, Children's Health Insurance, Temporary Assistance for Needy Families, Child Care and Development Fund, and Supplemental Nutrition Assistance programs. This is a repeat finding.

Audit Recommendation 1-1

**Department of Human Services’
Response to the Legislative Audit Report titled
*The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2014***

The department’s Temporary Assistance for Needy Families program policy staff should use the errors found by the internal audit division to develop a process that educates the county workers and ensures only eligible recipients receive benefits.

Response to Audit Recommendation 1-1

Since this finding last year, the 2014 Minnesota Legislature passed program uniformity and simplification changes for Temporary Assistance for Needy Families (TANF) effective in State Fiscal Year 2015 and State Fiscal Year 2016. This will lessen the number of errors due to complexity of program eligibility. The Department has coordinated with the counties to implement the related policy changes.

The TANF program/policy area recently implemented a process for tracking and monitoring the corrective action plans (CAPS) sent to counties when errors are detected. Counties are required to return the CAPS within 15 days of receiving the error notification. Additionally, by May 1, 2015, the Program Compliance and Audit unit of the Internal Audit Office will make available quarterly data that will show trends over time in the types of errors identified in eligibility review audits by county by month. CAPS and quarterly data will be used by the program area to help identify eligibility vs. technical errors and what sort of additional education/guidance county eligibility workers may need in order to clarify and reinforce policy and procedures. Updates will be made to training curriculum, policy manuals or other resources.

Responsible Persons: Donna Biederman, Laurie Grussing
Estimated Completion Date: Implementation of 2014 Legislation is ongoing through State Fiscal Year 2016. CAPS, quarterly data, and updates to training curriculum, policy manuals and other resources ongoing as common errors are reviewed.

Audit Recommendation 1-2

The department’s Child Care Assistance Program staff should continue its efforts to train county workers to ensure only eligible recipients receive benefits and the benefits authorized are accurate.

Response to Audit Recommendation 1-2

The department agrees with this finding and recommendation and will continue its efforts to train and provide technical assistance to county workers in order to reduce errors.

Responsible Person: Elizabeth Roe
Estimated Completion Date: This is an ongoing activity.

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2014

Audit Recommendation 1-3

The department should consider changes to the automated eligibility system to better identify higher risk income and eligibility discrepancies for Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs.

Response to Audit Recommendation 1-3

The processes to match income data on MAXIS against state and federal databases can be more efficient, continue to support strong program integrity and significantly free up frontline eligibility worker time for more productive activities. The Department has submitted and prioritized the data matching on the Agency Technical Project List. The Project kickoff meeting is scheduled on March 19, 2015 to assign resources and identify expected completion dates.

Responsible Person: Mark Toogood, Karla Larsen
Estimated Completion Date: December 31, 2015

Audit Finding 2

The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal internal control requirements for several federal programs. This is a repeat finding.

Audit Recommendation 2

The department should complete its review and documentation of its risks, control activities, and internal control and monitoring functions for its key financial and compliance processes related to federal programs and annually assess whether the risk assessments need updating.

Response to Audit Recommendation 2

The Department recognizes the importance of risk assessments in maintaining a strong control environment. We have been working diligently on our assessments and have made significant progress.

- We have completed comprehensive risk evaluations on the Social Services Block Grant, the Supplemental Nutrition Assistance Program (SNAP), and the Temporary Assistance for Needy Families (TANF) program.
- On February 19, 2015 we completed the annual re-assessment of the Social Services Block Grant.
- In January 2015 risk assessments were completed on the Child Care and Child Support Enforcement programs, with control implementation for Child Support to commence April 2015 and for Child Care to commence July 2015.

Department of Human Services'
Response to the Legislative Audit Report titled
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Federal Compliance Audit Year Ended June 30, 2014

- We have made significant progress on our Medical Assistance risk assessment, which will be completed by December 2015.
- We have hired an Enterprise Risk Manager, chartered an Enterprise Risk Management Planning Team and Steering Committee, and invested in training to strengthen our internal control awareness.

The Department is mindful that we still have some work ahead in light of the inclusion of three new federal programs to our risk plan: Adoption, Substance Abuse and CHIP. However, we continue to build our capacity and momentum to meet our commitment.

The Department also understands that the risk assessment process is a perpetual endeavor requiring that we continually assess processes, evaluate controls, manage changes, and measure effectiveness. We are integrating this work into our agency work plans going forward.

Responsible Person: David Forbes
Estimated Completion Date: December 2015

Audit Finding 3

The Department of Human Services did not consistently ensure county workers with access to the department's computer systems needed the access.

Audit Recommendation 3

The department should ensure that all counties annually recertify that their employees have job-related duties corresponding to their access to the department's computer systems.

Response to Audit Recommendation 3

We concur with the finding and recommendation. While recertification of access was initiated, the audit helped us identify shortcomings with our escalation processes for completeness. MN.IT Services will work with the department to identify and implement procedures to help ensure that recertification reports are returned timely.

Responsible Person: Mark Mathison
Estimated Completion Date: December 31, 2015

Audit Finding 4

The Department of Human Services did not correctly allocate \$936,072 in costs according to its federally approved cost allocation plan, causing the department to claim \$457,931 more in federal reimbursement than allowed.

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
Federal Compliance Audit Year Ended June 30, 2014

Audit Recommendations 4

The department should adjust future reimbursement claims to offset the \$457,931 of questioned costs.

The department should ensure that it uses the correct reimbursement rates for different types of administrative costs.

The department should ensure it does not claim reimbursement for federal expenditures twice.

Response to Audit Recommendation 4

The department agrees with the recommendations. \$157,763 has been reimbursed to the federal government in February 2015. The remaining \$300,168 will be refunded to the federal government through expenditure adjustments made on the January-March 2015 quarterly Central Office Cost Allocation System (COCAS) schedules. We will implement additional internal reviews to ensure that correct reimbursement rates are applied to expenditures. Action has been taken to ensure that the department does not claim reimbursement for the same expenditures twice. All COCAS programs have been reviewed and those that should not have invoices printed have been flagged for identification. These will be reviewed quarterly.

Responsible Person: Martin L. Cammack
Estimated Completion Date: April 30, 2015

Audit Finding 5

The Department of Human Services did not always perform licensing visits to child care facilities in timely manner. This is a repeat finding.

Audit Recommendation 5-1

The department should ensure it performs site visits and enforces licensing requirements for child care center within the required two year period.

Response to Audit Recommendation 5-1

The Department agrees. Due to some staffing shortages, there were licensed programs that had slight delays in receiving their routine licensing inspections. As this occurred, the Licensing Division focused its resources on monitoring high risk programs that were identified through previous compliance problems and complaints received regarding the services. As stated in the report, the 2013 Legislature increased the resources from eight licensing staff in 2013 to twelve licensing staff in 2014. Those staff are now trained and their contribution will help bring the department into compliance.

Department of Human Services'
Response to the Legislative Audit Report titled
The Department of Human Services
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Responsible Person: Regina Wagner
Estimated Completion Date: December 2015

Thank you again for the professional and dedicated efforts of your staff during this audit. 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 Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

A handwritten signature in cursive script that reads "Lucinda E. Jesson". The signature is written in black ink and is positioned above the printed name and title.

Lucinda E. Jesson
Commissioner