



FINANCIAL AUDIT DIVISION REPORT

**Department of
Human Services**

Federal Compliance Audit

Year Ended June 30, 2015

March 24, 2016

Report 16-06

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Financial Audit Division

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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.



March 24, 2016

Representative Sondra Erickson, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Emily Johnson Piper, 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 2015. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this was not a comprehensive audit of the Department of Human Services.

We discussed the results of the audit with the department's staff on March 15, 2016. This audit was conducted by Tyler Billig, CPA (Auditor-in-Charge); Sonya Johnson, CPA, CFE (Auditor-in-Charge); and Laura Wilson, CPA, CISA (Auditor-in-Charge); assisted by Jamal Abukar; Michael Anderson, CPA, CISA; Caitlin Badger; Michelle Bilyeu; Jordan Bjonfald, CPA; Scott Dunning, CPA; Michael Fenton, CISA; Kevin Herrick; Jennyfer Hildre; Gabrielle Johnson, CPA; April Lee; Jaclyn Merriam; Heather Rodriguez; Ali Shire; and, Melissa Strunc, CPA. We also received assistance from auditors in the department's Office of Internal Audit.

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 legal requirements applicable to its major federal programs for fiscal year 2015. 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, Basic Health, Temporary Assistance for Needy Families, and the Child Care and Development Fund programs. Also, as a result of the weaknesses in internal controls for eligibility, we conclude that the department did not comply with and did not have adequate internal controls to comply with federal allowable costs and allowable activities requirements for the Medical Assistance and Basic Health 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 ensure the effectiveness of controls over eligibility determinations for the Medical Assistance, Basic Health, Temporary Assistance for Needy Families, Child Care and Development Fund, and Supplemental Nutrition Assistance programs. This is a repeat finding. (Finding 1, page 9)
- The Department of Human Services did not ensure county workers with access to the department's computer systems needed the access. This is a repeat finding. (Finding 2, page 14)
- The Department of Human Services did not consistently reduce recipients' cash assistance benefits when the recipients refused to cooperate with child support enforcement requirements. (Finding 3, page 15)
- The Department of Human Services did not always perform on-site licensing reviews of child care centers within the required timeframe. This is a repeat finding. (Finding 4, page 16)
- The Department of Human Services did not accurately split costs related to the Children's Health Insurance Program between federal and state funding percentages, overcharging the federal share by \$241,814. (Finding 5, page 18)

¹ Office of the Legislative Auditor, Financial Audit Division Report 15-07, *Department of Human Services Federal Compliance Audit*, issued March 24, 2015.

Audit Scope

Our scope included programs we determined to be major federal programs for the State of Minnesota for fiscal year 2015, 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, Basic Health 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 2015
(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	\$632,836
10.561	State Administrative Matching Grants	70,168
	<u>Temporary Assistance for Needy Families Cluster</u>	
93.558	Temporary Assistance for Needy Families	186,707
93.563	<u>Child Support Enforcement</u>	118,712
	<u>Child Care and Development Fund Cluster</u>	
93.575	Child Care and Development Block Grant	82,629
93.596	Child Care Mandatory and Matching Funds	42,567
93.640	<u>Basic Health Program</u>	111,412
93.658	<u>Foster Care – Title IV-E</u>	43,904
93.667	<u>Social Services Block Grant</u>	31,046
93.767	<u>Children’s Health Insurance Program</u>	42,406
	<u>Medicaid Cluster</u>	
93.775	State Medicaid Fraud Control Units ²	1,241
93.777	State Survey and Certification of Health Care Providers and Suppliers ³	15,555
93.778	Medical Assistance Program	6,721,872

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 administers the State Medicaid Fraud Control Units.

³ Both the departments of Human Services and Health spent State Survey and Certification of Health Care Providers and Suppliers funds: \$5,381,000 and \$10,174,000, respectively.

Source: Fiscal Year 2015 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 2015 exceeded \$30 million.

The federal government 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; ends dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevents and reduces out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourages the formation and maintenance of two-parent families.
 - Child Support Enforcement enforces support 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 administrative costs.
 - 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.
 - Basic Health Program is an optional program established as part of the Affordable Care Act to provide a health care coverage program for certain low-income residents who do not qualify for Medicaid but are otherwise eligible to purchase coverage through the Health Insurance Marketplace.
 - 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 their administrative costs.
 - Social Services Block Grant provides services for individuals, families, and entire population groups to (1) prevent, reduce, or eliminate dependency; (2) prevent and remedy neglect, abuse, or exploitation of children and adults; (3) preserve, rehabilitate, and reunite families; (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 them for their administrative costs.
 - 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 January 2016, we issued a report on the department's oversight responsibility for ensuring that people who enrolled in public health care programs through MNsure⁴ met federal and state eligibility requirements for the program in which they were enrolled.⁵ Between January 1, 2015, and May 31, 2015, the state spent approximately \$990 million to provide benefits for recipients enrolled through MNsure. (This report was a follow-up to a report we issued in November 2014.⁶)

The report concluded that the Department of Human Services did not ensure that people enrolled in Medical Assistance and the state's Basic Health Program⁷ met the federal and state eligibility requirements for the program in which they were enrolled. As a result, the department paid benefits for ineligible people enrolled in public health care programs. Our testing found that 38 percent of the Medical Assistance and Basic Health Program people we tested were not eligible for the program in which they were enrolled, and 28 percent were not eligible for any public program.

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 2013.⁸ 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 annually.⁹

⁴ MNsure is the name of the online health insurance exchange the state developed under the Affordable Care Act. In November 2015, three state agencies, the Department of Human Services, the Office of MN.IT Services, and MNsure, named the public health care portion of MNsure the Minnesota Eligibility Technology System (METS).

⁵ Office of the Legislative Auditor, Financial Audit Division Report 16-02, *Department of Human Services Oversight of MNsure Eligibility Determinations for Public Health Care Programs*, issued January 28, 2016.

⁶ 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.

⁷ On January 1, 2015, the department transitioned the MinnesotaCare program to a Basic Health Program. The MinnesotaCare program provides health care coverage for low income people who are not eligible for the Medical Assistance program and have household incomes less than 200 percent of the federal poverty level.

⁸ Office of the Legislative Auditor, Program Evaluation Division Report, *Minnesota Health Insurance Exchange (MNsure)* pp. 45-46, issued February 17, 2015.

⁹ *Minnesota Statutes* 2015, 256B.056, subd. 7, and 256L.05, subd. 3a.

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 and contributed to the high error rate we reported in January 2016.

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 2015. 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.¹⁰ 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 and Title 2, Code of Federal Regulations, Part 200, Subpart F Audit Requirements.¹¹

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 2015. 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, Basic Health, Temporary Assistance for Needy Families, and the Child Care and Development Fund programs. Also, as a result of the weaknesses in internal

¹⁰ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2015, on the State of Minnesota's basic financial statements for the year ended June 30, 2015. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal controls 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 16-05, *Internal Controls Over Financial Reporting*, issued February 11, 2016.)

¹¹ The 2015 Compliance Supplement contained two parts with separate legal requirements and suggested audit procedures depending on the date the federal government awarded funds. Awards issued prior to December 26, 2014, were subject to the requirements of the federal Office of Management and Budget Circulars, including A-133 Audits of States, Local Governments and Non-Profit Organizations and A-87 Cost Principles for State, Local, and Indian Tribal Governments. Awards issued after December 26, 2014, were subject to the requirements of the Uniform Guidance outlined in 2, CFR, Part 200.

controls for eligibility, we conclude that the department did not comply with and did not have adequate internal controls to comply with federal allowable costs and allowable activities requirements for the Medical Assistance and Basic Health 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.¹²

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.

¹² Office of the Legislative Auditor, Financial Audit Division Report 15-07, *Department of Human Services Federal Compliance Audit*, issued March 24, 2015.

Findings and Recommendations

The Department of Human Services did not ensure the effectiveness of controls over eligibility determinations for the Medical Assistance, Basic Health, Temporary Assistance for Needy Families, Child Care and Development Fund, and Supplemental Nutrition Assistance programs. This is a repeat finding.¹³

Finding 1

In fiscal year 2015, the department continued to have deficiencies in its processes to determine recipients' eligibility for the benefits they received through several federal programs.¹⁴ 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 public health care programs, including Medical Assistance and MinnesotaCare.¹⁵

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

Deficiencies in county workers' eligibility determinations – As part of its oversight of the eligibility determinations made by county workers for the Temporary Assistance for Needy Families¹⁶ and Child Care and Development Fund¹⁷ programs, the department reviews the documentation for a sample of cases for each federal program. The reviews address whether the county workers complied with the department's policies and procedures. The reviewers give any potential eligibility errors to the department staff responsible for the program, and the program staff further investigates the causes of the deficiencies in eligibility determinations. 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 overpayments when necessary.

Although the department developed guidance to assist county workers in making eligibility determinations for the **Temporary Assistance for Needy Families** (CFDA 93.558)¹⁸ program, the number of deficiencies based on the department's case reviews continued to be high. The department's case reviews found that 141

¹³ Office of the Legislative Auditor, Financial Audit Division Report 15-07, *Department of Human Services Federal Compliance Audit*, (Finding 1) issued March 24, 2015.

¹⁴ For more than ten years, we have reported deficiencies in the state's oversight of eligibility determinations.

¹⁵ On January 1, 2015, the MinnesotaCare program transitioned to a federal Basic Health Program.

¹⁶ *Minnesota Statutes* 2015, chapter 256J, provides the basis for Temporary Assistance for Needy Families eligibility determinations.

¹⁷ *Minnesota Statutes* 2015, chapter 119B, provides the basis for Child Care and Development Fund program eligibility determinations.

¹⁸ See Appendix A (page 19) for federal award numbers for this program.

of 288 families, or 49 percent, were potentially not eligible for the program or may have been improperly dropped from the program even though they were eligible. The department's 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.

During fiscal year 2015, the Temporary Assistance for Needy Families program and policy staff implemented a process for tracking and monitoring corrective action plans sent to counties with potential errors in the eligibility determinations. The department used the counties' responses to the corrective action plans to identify additional guidance the county eligibility workers may need to clarify and reinforce policies and procedures. However, the department did not complete a thorough analysis of the errors and the county responses, including a calculation of the resulting error rate in the eligibility determinations. A more detailed analysis would help the department distinguish between procedural errors and incorrect eligibility determinations, understand the main causes of incorrect eligibility determinations, and develop better guidance and training for county workers.

For the **Child Care and Development Fund Cluster** programs (CFDA 93.575 and 93.596),¹⁹ the department took steps to reduce the types of errors found through its sample case reviews, but its fiscal year 2015 sample case reviews indicated the error rates remained high. Steps the department took to reduce errors included:

- sending corrective action plans to counties with potential errors and requiring a written response within 21 days;
- calling county workers on all cases with payment errors to educate them on the policies related to their specific errors and allow the workers to ask questions;
- meeting with staff at several counties to educate workers on the process the department uses to determine errors, the most common eligibility errors, and how to prevent errors;
- updating curriculum for training of new county staff;

¹⁹ *Ibid.*

- offering webinars for county staff designed to help reduce eligibility errors;
- clarifying and simplifying various policies in program manuals used by county workers; and
- making available other helpful information, for example, a document with the most common eligibility errors and tip sheets.

Despite these efforts, the department found that in 70 of 222 cases reviewed, or 32 percent, it potentially over or underpaid child care providers.²⁰ Common errors the reviewers found included incomplete applications and missing documents needed to verify income, address, school and work schedules, and child care provider registrations. Similar to the Temporary Assistance for Needy Families program, the department did not thoroughly analyze the final resolution of those potential errors, calculate the resulting eligibility error rate, and use the results of the analysis to further improve its outreach efforts to county workers.

Inadequate oversight of income discrepancy resolutions – Federal Temporary Assistance for Needy Families (CFDA 93.558) and Supplemental Nutrition Assistance (CFDA 10.551)²¹ regulations require the department to periodically match 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.²² Those regulations further require the department resolve at least 80 percent of the discrepancies found during the matching process within 45 days. However, the department's file matching process had the following control weaknesses:

- The department did not have a formal oversight policy and did not actively monitor the counties timely resolution of income discrepancies. Although reports indicated the state as a whole complied with the federal regulation to resolve at least 80 percent of the discrepancies within 45 days, the department did not monitor whether the counties were effective in meeting

²⁰ In fiscal year 2014, the department determined 69 percent of the cases reviewed did not have sufficient documentation to support the authorized child care hours, or they incorrectly determined family copayments. Based on the *Improper Payments Data Collection Instructions* issued September 30, 2012, by the U.S. Department of Health and Human Services' Office of Child Care Administration for Children and Families, beginning in fiscal year 2015 the department changed its error calculation standard and based the rate on incorrect payments to child care providers rather than incorrect authorization amounts. Therefore, comparing the 2014 and 2015 error rates would be misleading.

²¹ See Appendix A (page 19) for federal award numbers for this program.

²² 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) and 7 CFR, sec. 272.8(c)(2) for Supplemental Nutrition Assistance Program. The federal government refers to this matching process as the Income Eligibility and Verification System (IEVS).

this goal. One of nine counties we tested did not meet the 80 percent requirements for all four quarters of fiscal year 2015, and the department did not issue a corrective action plan to the county. A formal oversight policy would give guidance to the department's staff responsible for monitoring the counties' compliance with the discrepancy resolutions. The policy should address how often department staff must review the resolution reports, when to place a county on a corrective action plan, and what the corrective action plan should include. By not monitoring the counties' resolutions of discrepancies and establishing a written policy, the state risks not meeting the 80 percent requirement in the future.

- The current file matching process is ineffective to monitor changes in recipients' eligibility. The department did not make changes to its eligibility system²³ 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 programs. Because the file matches identify many discrepancies (about 295,000 during fiscal year 2015), we have been skeptical about the diligence of county workers' resolution efforts.

In March 2013, we recommended the department assess the effectiveness of the electronic file matching process so it better identifies discrepancies that have a higher risk of affecting a recipient's eligibility or level of benefits.²⁴ The department submitted the initial request to the Office of MN.IT Services, the state's information technology office, to change the automated eligibility system in November 2013.²⁵ However, as of February 2016, MN.IT had not implemented the department's request. In December 2014, the department and MN.IT combined the project with two related program integrity projects that had federally mandated deadlines. The project work started March 2015 with the federally mandated components scheduled to be completed first. MN.IT staff anticipated MN.IT would begin the project to implement the file matching changes toward the end of 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 public health care enrollees changed when the state implemented its health insurance exchange (MNsured) in October 2013, including

²³ The department's automated eligibility system for the Temporary Assistance for Needy Families and Supplemental Nutritional Assistance programs is MAXIS.

²⁴ 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.

²⁵ In fiscal year 2015, the department used an automated eligibility system called MAXIS for Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs.

those enrolled in Medical Assistance (CFDA 93.778) and the Basic Health Program (CFDA 93.640).²⁶ The federal Patient Protection and Affordable Care Act requires that MNsure rely on the Federal Services Data Hub to verify applicants' information as a basis for eligibility.²⁷

In January 2016, we issued a report that concluded the department had not ensured that Medical Assistance and Basic Health Program recipients who enrolled through MNsure were eligible for the benefits they received.²⁸ The report identified many instances where we concluded that the person did not meet federal and state eligibility requirements. Significantly, we concluded that 59 of the 157 people (38 percent) were not eligible for the public health care program in which they were enrolled, and 44 of those people (28 percent) were not eligible for any other public health care program. The report included recommendations to the department to improve its oversight processes.

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 of Human Services' Temporary Assistance for Needy Families program policy staff should, (1) thoroughly analyze the causes of the deficiencies in eligibility determinations, (2) improve its policies and procedures based on the analysis, (3) continue to educate county workers, and (4) ensure only eligible families receive benefits.*
- *The Department of Human Services' Child Care Assistance Program staff should thoroughly analyze the causes of the deficiencies in eligibility determinations and continue its efforts to train county workers to ensure only eligible families receive benefits, and the benefits paid are accurate.*
- *The Department of Human Services should develop a policy for monitoring the counties' compliance with the 80 percent discrepancy resolution requirement and follow up with counties not meeting the requirement.*

²⁶ See Appendix A (page 19) for federal award numbers for these programs. The department's MinnesotaCare program is partially funded with federal Basic Health Program funds.

²⁷ 45 CFR, sec. 155.320(c)(1)(i)(a) and (b) and 42 CFR, sec. 435.948.

²⁸ Office of the Legislative Auditor, Financial Audit Division Report 16-02, *Department of Human Services Oversight of MNsure Eligibility Determinations for Public Health Care Programs*, issued January 28, 2016.

- *The Department of Human Services should work with the Office of MN.IT Services to update the process of matching income data in the eligibility system to information in federal and state databases. The objective of the update is to better identify higher risk income discrepancies for Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs.*

Finding 2

The Department of Human Services did not ensure county workers with access to the department's computer systems needed the access. This is a repeat finding.²⁹

The department did not ensure that counties completed the annual recertification of county workers' access to various state systems.³⁰ Thousands of 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.³¹ The purpose of the annual recertification is to determine if the access provided to county workers is still needed. The Office of MN.IT Services is responsible on behalf of the department to verify counties complete and submit recertifications for their employees; however, MN.IT staff told us they had not requested any recertification documents from the counties in fiscal year 2015.³²

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

²⁹ Office of the Legislative Auditor, Financial Audit Division Report 15-07, *Department of Human Services Federal Compliance Audit*, (Finding 3) issued March 24, 2015.

³⁰ 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 include: Minnesota Eligibility Child Care, MAXIS (the cash and food assistance system), Medicaid Management Information System, MNsure/Minnesota Eligibility Technology System, Social Services Information System, and PRISM (the child support enforcement system).

³¹ 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), Basic Health Program (CFDA 93.640) and Medical Assistance Program (CFDA 93.778). See Appendix A (page 19) for federal award numbers for these programs.

³² The Office of MN.IT Services provides information technology services to the Department of Human Services and other state agencies.

current employees with valid business needs have access to the electronic systems.³³

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.

Recommendation

- *The Department of Human Services should work with the Office of MN.IT Services to ensure counties annually recertify that their employees have job-related duties corresponding to their access to the department's computer systems.*

The Department of Human Services did not consistently reduce recipients' cash assistance benefits when the recipients refused to cooperate with child support enforcement requirements.

Finding 3

The department did not reduce Temporary Assistance for Needy Families (CDFA 93.558) cash assistance benefits for 2 of 25 recipients tested who refused to cooperate with child support enforcement requirements.³⁴ Federal regulations require state agencies to reduce recipients' cash assistance benefits by no less than 25 percent when the recipients refuse to cooperate with establishing paternity or establishing, modifying, or enforcing a support order with respect to a child of a recipient.³⁵

The child support enforcement system sends notification messages to county workers through the department's eligibility system³⁶ to reduce recipients' benefits when custodial parents initially refused to cooperate with child support enforcement requirements. The county workers received the notification of the two recipients in our sample who were not cooperating with the child support enforcement requirements; however, they did not follow the child support sanction policy.³⁷

One recipient in our sample received a total overpayment of \$452 because the county worker did not apply the sanction in the correct month and then removed

³³ 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.

³⁴ See Appendix A (page 19) for federal award numbers for this program.

³⁵ 45 CFR, sec. 264.30.

³⁶ MAXIS is the eligibility system for the cash and food assistance programs, including the Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs.

³⁷ Department of Human Services Combined Manual, Child Support Sanctions, section 12.24.

the sanction a month too soon after the recipient began cooperating. We also found the department overpaid another recipient in our sample \$127 because the county worker removed the sanction one month early.

Federal regulations allow the federal Department of Health and Human Services to penalize states for failure to substantially comply with these sanction requirements.³⁸

Recommendations

- *The Department of Human Services should ensure county workers sanction the cash assistance benefits for recipients who do not cooperate with the child support enforcement requirements.*
- *The Department of Human Services should develop additional training for county workers that addresses the child support sanction policy.*

Finding 4

The Department of Human Services did not always perform on-site licensing reviews of child care centers within the required timeframe. This is a repeat finding.³⁹

The department licenses all child care centers in Minnesota. Many child care centers receive federal money from the department because they provide services to families eligible to participate in the Child Care and Development Fund programs (CFDA 93.575 and 93.596).⁴⁰ The Child Care and Development Fund allows each state maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within the state.

In addition to paying for eligible families' child care, the department uses federal money to administer the program. In the Child Care and Development Fund plan it submits to the federal government,⁴¹ the department certifies that procedures are in place to ensure that child care centers comply with applicable state health and

³⁸ 45 CFR, sec. 264.31.

³⁹ Office of the Legislative Auditor, Financial Audit Division Report 15-07, *Department of Human Services Federal Compliance Audit* (Finding 5), issued March 24, 2015.

⁴⁰ 45 CFR, Part 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.

⁴¹ The department submits its plan to the U.S. Department of Health and Human Services' Administration for Children and Families (ACF).

safety requirements.⁴² The plan states that the department's licensing staff will perform on-site reviews of child care centers once every two years to ensure compliance with these requirements.⁴³

The department, however, did not always perform on-site reviews of child care centers once every two years. We selected 40 child care centers for review and found that the department delayed on-site reviews beyond two years for 18 centers, with an average delay of three months. Table 2 below shows the results from our testing:

Table 2
Length of the Delays in Child Care Center On-Site Licensing Reviews

<u>Delay in Reviews (in months)</u>	<u>Number of Child Care Centers</u>
2 months or under	6
Between 3 and 4 months	9
Between 5 and 6 months	1
Between 7 and 8 months	<u>2</u>
Total delayed reviews	18

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

During on-site licensing reviews, 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 on-site licensing reviews, health and safety issues may exist at child care centers and not be detected and corrected.

A key feature of the federal Child Care and Development Block Grant Act of 2014,⁴⁴ which reauthorizes the Child Care and Development Fund program, is an increased focus on the improved health and safety of children. One of the changes requires an annual, unannounced, on-site review of licensed child care centers. The department must demonstrate the ability to comply with this requirement by September 30, 2016.

Recommendation

- *The Department of Human Services should ensure it performs on-site reviews and enforces licensing requirements for child care centers within the required two-year period.*

⁴² 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.

⁴³ Child Care Development Plan, section 3.1.2.

⁴⁴ Public Law 113-186.

Finding 5

The Department of Human Services did not accurately split costs related to the Children’s Health Insurance Program between federal and state funding percentages, overcharging the federal share by \$241,814.

The department overstated the federal share of Children’s Health Insurance Program (CFDA 93.767) expenditures by \$241,814.⁴⁵ In fiscal year 2015, the department spent \$42,405,785 for the Children’s Health Insurance Program.

Quarterly, the department adjusted Children’s Health Insurance Program expenditures recorded in the state’s accounting system to align with the federal and state funding percentages for Children’s Health Insurance Program.⁴⁶ A department accountant calculated the adjustment amounts, but the department did not have another employee review the adjustments to verify their accuracy. The department incorrectly determined the following adjustment amounts:

- For the quarter ending June 2015, the department incorrectly reduced expenditures recorded in the Children’s Health Insurance Program by \$27,420; however, the department should have reduced program expenditures by \$264,326. This error resulted in a \$236,906 overstatement of Children’s Health Insurance Program expenditures.
- For the quarter ending March 2015, the department incorrectly increased expenditures recorded in the Children’s Health Insurance Program by \$2,454; however, the department should have reduced expenditures by \$2,454. The error resulted in a \$4,908 overstatement of Children’s Health Insurance Program expenditures.

Good internal controls require management design effective controls to ensure the accurate recording of transactions.⁴⁷

Recommendations

- *The Department of Human Services should correct the errors by reducing the federal share of Children’s Health Insurance Program expenditures by \$241,814.*
- *The Department of Human Services should have an employee (who is not involved in determining the adjustment amounts) review the adjustments to ensure accuracy.*

⁴⁵ See Appendix A (page 19) for federal award numbers for this program.

⁴⁶ For federal fiscal years 2014 and 2015, the federal government funded 65 percent of Children’s Health Insurance Program expenditures, while the state paid 35 percent of the expenditures.

⁴⁷ Comptroller General of the United States, Government Accountability Office, Standards for Internal Control in the Federal Government, (Washington D.C., September 2014), page 45, states, “Management should design control activities to achieve objectives and respond to risks.” Figure 6 on page 46 includes “Accurate and timely recording of transactions” as an example of a common category of control activities.

Appendix A
Major Federal Programs
Department of Human Services
Fiscal Year 2015

CFDA¹	Program Name	Federal Award Number
	<u>Supplemental Nutrition Assistance Program Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	2014ID281142, 2014IS601842, 2014IS604542, 2014IS802642, 2015IS601842, 2015IS604542, 2015IS802642
10.561	State Administrative Matching Grants	2012IS820442, 20140E251842, 20142E251842, 2014CQ251442, 2014CQ251942, 2014CQ252042, 2014IE251842, 2014IQ390342, 2014IQ750342, 2014IS251442, 2014IS251942, 2014IS252042, 2014IS750342, 2014IS803642, 2015CQ750342, 2015IQ390342, 2015IQ750342, 2015IS251442, 2015IS251942, 2015IS252042, 2015IS803642
93.558	Temporary Assistance for Needy Families Cluster	1402MNTANF, 1502MNTANF
93.563	Child Support Enforcement	1404MN4005, 1504MNCSES
	<u>Child Care and Development Fund Cluster</u>	
93.575	Child Care and Development Block Grant	1401MNCCDF, 1501MNCCDF
93.596	Child Care Mandatory and Matching Fund	1201MNCCDF, 1301MNCCDF, 1401MNCCDF, 1501MNCCDF
93.640	Basic Health Program	None ¹
93.658	Foster Care – Title IV-E	1401MN1401, 1501MNFOST
93.667	Social Services Block Grant	1301MNSOSR, 1401MNSOSR, 1501MNSOSR
93.767	Children’s Health Insurance Program	1405MN5021, 1505MN1081
	<u>Medicaid Cluster</u>	
93.775	State Medical Fraud Control Units	1401MN5050; 1501MN5050
93.777	State Health Care Providers Survey	1405MN5001
93.778	Medical Assistance Program	1405MN5ADM, 1405MN5MAP, 1405MNIMPL, 1405MNINCT, 1505MN5ADM, 1505MN5MAP, 1505MNIMPL, 1505MNINCT

¹ The U.S. Department of Health and Human Services’ Center for Medicare and Medicaid Services did not issue a federal award number for the Basic Health Program.

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 18, 2016

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, 2015. 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 audit raises concerns regarding our oversight of the TANF and child care eligibility processes, an area the department has been working hard to address. We agree with the recommendation that there must be an analysis of the potentially incorrect eligibility determinations, which is why the department will conduct a quarterly analysis of the corrective action plan responses from counties. This analysis will seek to determine the context and cause of the most common errors found in this audit: missing or incomplete documentation.

The deficiencies reflected in this report reveal that the department often cannot verify that counties are accurately determining that clients are eligible for the programs. This is due to missing or incomplete data in county case files. We know from our experience in other audits that documentation errors do not equate to errors in eligibility. By conducting the more thorough analysis of the results we can determine the extent to which the lacking documentation, once obtained, will ultimately verify the initial eligibility determination. In short, a deeper understanding of the data is needed, and we will implement the recommendation to thoroughly analyze these areas of mutual concern.

We also expect that our analysis of the data will produce additional benefits by assisting the department in determining what further training and guidance may be needed and what policies may need to be simplified, clarified or strengthened. We will share our analysis with the OLA and, if requested, the legislature to ensure transparency and accountability.

Finally, we appreciate that the OLA has consistently acknowledged the complexity of administering these programs. While we have made some progress over the last several years simplifying these programs, there is still great opportunity for further simplification and we are committed to that effort.

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

Below are the department's responses to the findings and recommendations in the 2015 Federal Compliance Audit.

Audit Finding 1

The Department of Human Services did not ensure the effectiveness of controls over eligibility determinations for the Medical Assistance, Basic Health, Temporary Assistance for Needy Families, Child Care and Development Fund, and Supplemental Nutrition Assistance programs. This is a repeat finding.

Audit Recommendation 1-1

The Department of Human Services' Temporary Assistance for Needy Families program policy staff should, 1) thoroughly analyze the causes of the deficiencies in eligibility determinations, 2) improve its policies and procedures based on the analysis, 3) continue to educate county workers, and 4) ensure only eligible families receive benefits.

Response to Audit Recommendation 1-1

The department agrees with the finding and recommendation. The department has clarified that the results of the program eligibility determination reviews required by federal or state laws are preliminary findings only and should not be construed as final results. The department plans to extend its internal review process for TANF cases. The extended review process will require counties to submit their findings on the corrective action plan to the department to determine whether the preliminary findings are supported or should be overturned. From this documentation, the final error rate can be produced. In addition, these finding will identify strategies most likely to reduce future errors such as:

- Additional training needed for county staff,
- Clearer communication through manuals and bulletins,
- Opportunities for process improvements and efficiencies,
- Suggested legislative fixes to program complexity.

Responsible Persons: Jovon Perry, Director, Economic Assistance and Employment Services
Laurie Grussing, Manager, Program Compliance and Audits
Estimated Completion Date: April 30, 2016, process starts; initial rates determined by October, 31, 2016

Audit Recommendation 1-2

The Department of Human Services ' Child Care Assistance Program staff should thoroughly analyze the causes of the deficiencies in eligibility determinations and continue its efforts to train county workers to ensure only eligible families receive benefits, and the benefits paid are accurate.

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

Response to Audit Recommendation 1-2

The department agrees with the recommendation. Starting with the reviews currently underway, the department will clarify that the results of the validation reviews required by federal or state law are preliminary findings only and should not be construed as final results. As stated in this report the department currently asks counties to complete corrective action plans. In completing these corrective action plans, counties further investigate preliminary errors and these corrective action plans are then submitted back to the department. Starting with the fiscal year 2016 reviews, the department will now also be making a final error determination once the corrective action plan information is returned from a county and will either support or overturn the preliminary error finding. The department will produce an updated final error rate. In addition, the department will ensure that education and training provided to counties targets final errors as determined through the corrective action plan process.

Responsible Person: Elizabeth Roe, Manager, Child Care Assistance
Laurie Grussing, Manager, Program Compliance and Audits
Estimated Completion Date: April 30, 2016, process starts; initial rates determined by October, 31, 2016

Audit Recommendation 1-3

The Department of Human Services should develop a policy for monitoring the counties' compliance with the 80 percent discrepancy resolution requirement and follow up with counties not meeting the requirement.

Response to Audit Recommendation 1-3

The department agrees with the recommendation. The department will update and enhance the oversight policy to monitor the counties timely resolution of file matching discrepancies. In addition to statewide monitoring, individual counties that do not meet the timeliness requirement are placed in corrective action status until they resolve IEVS matches timely. There was a gap in oversight during several staffing transitions due to retirements and job changes over the last 6 months. Consistent monitoring will begin again May 1, 2016.

The Department now has dedicated staff that will actively monitor that counties are appropriately resolving the discrepancies and requiring corrective action plans as needed.

Responsible Person: Jovon Perry, Director, Economic Assistance and Employment Services
Estimated Completion Date: May 2016, process starts; results available by July 30th, 2016

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 1-4

The Department of Human Services should work with the Office of MN.IT Services to update the process of matching income data in the eligibility system to information in federal and state databases. The objective of the update is to better identify higher risk income discrepancies for Temporary Assistance for Needy Families and Supplemental Nutrition Assistance programs.

Response to Audit Recommendation 1-4

The department agrees with the recommendation. The department is working with the Office of MN IT Service to consolidate other data matching functions.

Responsible Person: Jovon Perry, Director, Economic Assistance and Employment Services
Scott Peterson, Chief Information Officer, MN.IT @ DHS
Estimated Completion Date: December, 2016

Audit Finding 2

The Department of Human Services did not ensure county workers with access to the department's computer systems needed the access. This is a repeat finding.

Audit Recommendation 2

The Department of Human Services should work with the Office of MN.IT Services to ensure counties annually recertify that their employees have job-related duties corresponding to their access to the department's computer systems.

Response to Audit Recommendation 2

We agree with the finding and recommendation. MN.IT Services is working with the department to identify and implement controls to help ensure that recertification reports are completed annually.

Responsible Person: Chris Luhman, Information Security Manager, MN.IT @ DHS
Gary Johnson, Director, Internal Audits Office
Estimated Completion Date: December 2016

Audit Finding 3

The Department of Human Services did not consistently reduce recipients' cash assistance benefits when the recipient refused to cooperate with child support enforcement requirements.

**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 3

- *The Department of Human Services should ensure county workers sanction the cash assistance benefits for recipients who do not cooperate with the child support enforcement requirements.*
- *The Department of Human Services should develop additional training for county workers that addresses the child support sanction policy.*

Response to Audit Recommendation 3

The department agrees with the recommendation. The department will review the policy manual to ensure the sanction policy is clear for county workers when clients fail to cooperate with child support. The department will also review the training curriculum on sanction policy for new county workers and will present a reminder of the child support cooperation and sanction policy at the next mentor meeting.

Responsible Person: Jovon Perry, Director, Economic Assistance and Employment Services
Estimated Completion Date: June 30, 2016

Audit Finding 4

The Department of Human Services did not always perform on-site licensing reviews of child care centers within the required timeframe. This is a repeat finding.

Audit Recommendations 4

The Department of Human Services should ensure it performs on-site reviews and enforces licensing requirements for child care centers within the required two-year period.

Response to Audit Recommendation 4

The State currently employs 9.5 child care licensors, 2 supervisors and 1 manager who are responsible for monitoring 1,600 child care centers. This results in a caseload ratio of approximately 1:170. The funding of child care center licensing staff is supported largely by licensing fees. Increasing staff sufficient to ensure 100% compliance with a two-year review cycle would require additional resources and funding that could significantly increase licensing fees.

In addition, the federal Child Care and Development Block Grant Act of 2014, enacted on November 19, 2014, will require several significant changes for child care center licensing activities. Many of the changes will require state law changes, funding, and/or systems programming changes. Perhaps the most significant changes for child care licensing activities is the requirement for States to conduct

Department of Human Services'
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annual unannounced inspections of child care centers (and family child programs) to monitor for compliance with all child care licensing standards. While the new law does not mandate a caseload ratio, it does require the State to certify that it has policies and procedures in place to successfully achieve annual unannounced inspections. Failure to meet this benchmark could result in financial penalties against the CCDF block grant.

DHS is preparing for implementation of these provisions, which will require passage of state legislation and the identification of additional resources to meet the more demanding inspection and monitoring requirements.

Responsible Person: Regina Wagner, Licensing Deputy Inspector General
Estimated Completion Date: December 2017

Audit Finding 5

The Department of Human Services did not accurately split costs related to the Children's Health Insurance Program between federal and state funding percentages, overcharging the federal share by \$241,814.

Audit Recommendation 5-1

The Department of Human Services should correct the errors by reducing the federal share of Children's Health Insurance Program expenditures by \$241,814.

Response to Audit Recommendation 5-1

The Department agrees with this recommendation and has made an adjusting entry to correct the error.

Responsible Person: Martin Cammack, Director, Financial Operations
Estimated Completion Date: February 2016

Audit Recommendation 5-2

The Department of Human Services should have an employee (who is not involved in determining the adjustment amounts) review the adjustments to ensure accuracy.

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

Response to Audit Recommendation 5-2

The Department agrees with this recommendation and is in the process of developing and documenting an internal peer review process for all manual adjustments performed by the unit.

Responsible Person: Martin Cammack, Director, Financial Operations
Estimated Completion Date: April 2016

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,



Emily J. Piper
Commissioner