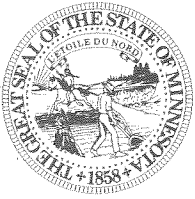


**STATEWIDE AUDIT
DEPARTMENT OF HUMAN SERVICES
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 1985**

FEBRUARY 1986

**Financial Audit Division
Office of the Legislative Auditor
State of Minnesota**



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Mr. Leonard W. Levine, Commissioner
Department of Human Services
4th Floor, Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Commissioner Levine:

We have reviewed certain accounting procedures and controls for your department as part of our statewide audit of the State of Minnesota's fiscal year 1985 financial statements and federal programs. The scope of our work has been limited to:

- those aspects of your department which have material impact on the state's various funds and account groups shown on the financial statements;
- the status of prior audit recommendations; and
- the federal programs cited in the Catalog of Federal Domestic Assistance (CFDA) which were included in the Single Audit scope as follows:

<u>CFDA NUMBER</u>	<u>PROGRAM</u>
10.550	Food Distribution
10.551	Food Stamps
13.633	Special Program for the Aging Title III, Parts A and B
13.645	Child Welfare Services
13.646	Work Incentive Program
13.659	Adoption Assistance
13.667	Social Services Block Grant
13.679	Child Support Enforcement
13.714	Medical Assistance
13.808	Assistance Payments - Maintenance (AFDC)
13.814	Refugee Assistance - State Administered
13.992	Alcohol and Drug Abuse and Mental Health Services Block Grant
84.126	Rehabilitation Services - Basic Support

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. The work conducted in your department is a part of our annual Statewide Financial and Federal Compliance Audit (Single Audit). The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1985. Since the federal government is ultimately responsible for determining resolution of Single Audit recommendations, they will notify you of their final acceptance of your corrective actions.

This management letter contains both our recommendations developed during this audit and reiteration of our prior recommendations which have not yet been implemented. Prior audit recommendations repeated in this text are denoted under the caption "PRIOR RECOMMENDATIONS NOT IMPLEMENTED," "PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED," or "PRIOR RECOMMENDATIONS MODIFIED." Attached to your management letter is a summary of the progress on all audit recommendations developed during our financial audit of Minnesota's fiscal year 1984 financial statements. The recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

PRIOR RECOMMENDATION NOT IMPLEMENTED: The Department of Human Services (DHS) is not billing indirect costs to all eligible federal programs.

Minn. Stat. Section 16A.127 requires that a state agency's, "... application for federal money should include necessary submissions to get both statewide and agency indirect cost money." This statute further requires that state agencies, "... reimburse the General Fund for federal money received for statewide indirect costs." Another provision of the statute provides that the Commissioner of Finance may determine, "... for reasons of sound financial management, to waive the reimbursement under this subdivision for certain non-general fund monies."

The DHS Fiscal Services Division notifies the respective program divisions of their indirect cost charges each quarter as provided by the current federal cost allocation plan. The program staff are to request the allocated amounts less any federal restrictions in their letter-of-credit authorizations. The amount received is then transferred by DHS to the General Fund. Out of 13 programs tested in fiscal year 1985, we found that 8 programs were not transferring the correct amounts for both statewide and agencywide indirect costs. The amounts transferred differed from the amounts allocated by \$150,438 and \$319,147 for statewide and agencywide, respectively, as illustrated in Tables I and II following.

These variances were discussed with DHS program staff and the following explanations were obtained for the various programs as shown in the tables.

- Estimated Amounts - Program staff for CFDA #13.633 requested and transferred to the General Fund, the same predetermined amount each quarter irrespective of the amount allocated to them by DHS Fiscal Services Division. Since this method is not allowable, the net overcharge of \$112,635 (statewide <\$22,992>--agencywide \$135,627) will be reported as a questioned cost to the federal grantor agency.
- Unapproved Waivers - Program staff for CFDA #84.126 have indicated for the last two years that the Department of Finance (DOF) has waived 50 percent of their statewide costs. However, we have provided the program staff with a memorandum (dated July 15, 1984) that documents that DOF did not waive any costs for CFDA #84.126.

- Accounting Errors - Errors were made in the amounts transferred for CFDA #10.551 and #13.808. CFDA #13.808 will be adjusted on the December 31, 1985 quarterly report. CFDA #10.551 will not be adjusted since both amounts are transferred to the General Fund and are offsetting.
- Department Policy - The remaining variances for CFDA's #13.646, 13.667, 13.814, and 84.126 are primarily due to DHS's policy of paying direct program costs first, and then using any remaining funds for indirect cost reimbursements.

TABLE I: STATEWIDE INDIRECT COSTS

<u>CFDA Number</u>	<u>Costs Allocated</u>	<u>Costs Transferred</u>	<u>Amount of Variance</u>	<u>Explanation of Variance</u>
10.551	\$ 10,572	\$9,131	\$ 1,441	Accounting Errors
13.633	22,992	-0-	22,992	Estimated Amounts
13.646	4,372	-0-	4,372	Department Policy
13.667	48,132	-0-	48,132	Department Policy
84.126	<u>73,501</u>	<u>-0-</u>	<u>73,501</u>	Unapproved Waiver
	<u>\$159,569</u>	<u>\$9,131</u>	<u>\$150,438</u>	

TABLE II: AGENCYWIDE INDIRECT COSTS

<u>CFDA Number</u>	<u>Costs Allocated</u>	<u>Costs Transferred</u>	<u>Amount of Variance</u>	<u>Explanation of Variance</u>
10.551	\$ 411,697	\$ 413,140	\$ <1,443>	Accounting Errors
13.633	120,623	256,250	<135,627>	Estimated Amounts
13.646	200,830	149,500	51,330	Department Policy
13.667	2,226,483	2,182,000	44,483	Department Policy
13.808	974,519	1,026,628	<52,109>	Accounting Errors
13.814	170,303	169,592	711	Department Policy
84.126	<u>411,802</u>	<u>-0-</u>	<u>411,802</u>	Department Policy
	<u>\$4,516,257</u>	<u>\$4,197,110</u>	<u>\$319,147</u>	

DHS has improved controls over indirect cost transfers by issuing quarterly memorandums that notify program staff of the amounts allocated to their programs. In an attempt to clear up some of the variances, DHS even requested a waiver from DOF on transferring amounts to the General Fund for various programs they felt were insufficiently funded (CFDA's 13.646, 13.667, 13.814, and 84.126). However, DOF did not approve of their request (memorandum dated September 3, 1985), and DHS was instructed to transfer the proper amounts to the General Fund. Consequently, even though controls have improved in this area, we still feel that closer monitoring is warranted. The amounts allocated to each program and the amounts transferred should not be monitored by just the program staff, as is the current practice. This type of function is best performed by a centralized unit so that controls are enforced uniformly and on a timely basis.

RECOMMENDATIONS:

1. *Indirect costs should be recovered from all eligible federal programs, and transferred to the General Fund, unless a waiver is obtained pursuant to Minn. Stat. Section 16A.127*
2. *DHS Fiscal Services Division should reconcile amounts allocated to actual amounts transferred to DOF on a quarterly basis. All variances should be resolved immediately.*

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Payroll expenditures charged to federal programs are not properly monitored.

Expenditures for payroll may be charged to allowable federal programs either directly or indirectly. According to the U.S. Office of Management and Budget (OMB) Circular A-87:

"Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the state Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort."

The majority of federal payroll expenditures are allocated either directly or indirectly to federal programs through the department's cost allocation plan approved by the federal government. Currently, DHS uses the state's central payroll system's Position Action Form (PAF) to allocate payroll costs to federal programs on this basis. The estimated funding allocation to a federal account is recorded on the PAF and entered into the payroll system. The department uses positive time reporting to certify actual hours worked in a pay period; however, all employees are not required to distribute their time on a program basis. Some employees are required to allocate the hours applied to various programs on their biweekly time sheets, while others are not required to since their time is applied 100

percent. Each pay period, a report is generated that shows the time allocation percentages between programs for each position as is shown on the PAF. This report, the "Staffing Pattern 06 Run", is sent to each division supervisor to show the programs and percentage allocation that is listed for each employee. Each supervisor is to review this staffing run and notify the personnel division immediately of any changes. An expense transfer form is to be completed the following pay period, as required by the Department of Finance accounting procedure 07:04:15, to retroactively adjust any errors or changes.

Our testing in fiscal year 1983 indicated that several employees were recording actual time on their biweekly time sheets, however, this time distribution was not used to change the payroll allocation when necessary. This resulted in certain federal programs being charged for payroll costs that should have been charged to state or other federally funded programs. We disclosed examples of questioned costs in 1983 for the Child Welfare Services Program (CFDA #13.645). However, we were unable to determine the total effect of this problem because employees did not allocate their time for all pay periods. We were told by the DHS Personnel Division that time distribution problems were due to the staffing run not being used properly. Also, the Personnel Division's expense transfers were not submitted in all cases.

We discussed the Child Welfare Services payroll charges again with DHS in fiscal years 1984 and 1985. Similar problems were noted, although we were unable to quantify amounts charged incorrectly since employees sampled were no longer prorating time on their time sheets. DHS staff stated they feel any staff who work on a program with Child Welfare related services can charge their entire payroll costs to Child Welfare (CFDA #13.645). This encompasses programs that provide a wide variety of social services so long as some type of service is child related. Administrative staff in the Adoption Assistance (CFDA #13.659), Child Support Enforcement (CFDA #13.679) and Title XX (CFDA #13.667) Programs charge time to Child Welfare (CFDA #13.645) even though each one of these programs is funded through a separate federal grant which provides for administrative costs. In effect, DHS is using the Child Welfare Program (CFDA #13.645) to administer other federal programs that provide not only services to children, but that provide services to other recipients of social service programs administered by DHS. Therefore, some DHS program administrative staff are being charged to the Child Welfare Services Program that we believe may be questionable.

We believe that the current system of allocating and subsequently adjusting employee hours charged to federal programs has proved ineffective. This system precluded us from determining whether payroll charges to federal programs are accurate. A more flexible and reliable system is needed to capture charges for employees who work on state and federal programs, and to account for employees who administer several related federal programs.

DHS has attempted to improve the situation during 1985 in two ways. First, a new report was generated to replace the Staffing Pattern 06 Run, since the supervisors were not reviewing the 06 Run and noting changes as required. However, the new report (Position/Employee Roster) is not being reviewed consistently by the supervisors either. Second, a consultant was

hired to initiate a statistical allocation process for splitting payroll expenditures between federal and state programs. This allocation process is supported by a random moment time study, but it is only being applied to staff positions at the county level. DHS staff stated that a decision to use the allocation process for central office staff has not been made yet. This allocation process could also be applied to central office employees.

RECOMMENDATION

3. *DHS should establish an employee time distribution system so that only actual hours worked are charged to the social services programs.*

PRIOR RECOMMENDATIONS MODIFIED: CSSA and Title XX statutory requirements conflict with DHS current policies.

The state Community Social Services Act (CSSA) Program, which began in January 1980, replaced three categorical programs: (1) Mentally Ill Service Grant-in-Aid; (2) Daytime Achievement Center Grant-in-Aid; and (3) Chemically Dependent Detoxification Grants. The CSSA Program provides block grants to counties, which are responsible for implementing community social service programs. The Social Services Block Grant (Title XX -CFDA #13.667), which was established by the Omnibus Budget Reconciliation Act of 1981, resembles the CSSA block grant. Federal funds are channeled through the state and allocated to counties so that counties may purchase or provide social services for clients. Although the federal government has a few compliance restrictions, much of the discretion for spending funds remains with the state.

The statutory requirements for CSSA and Title XX are described in Minn. Stat. Chapter 256E. In fiscal year 1984, we cited DHS for non-compliance with the statutes in the following areas:

- actual expenditures were not compared to allocations on a timely basis for CSSA and Title XX;
- county levies for CSSA were not reviewed promptly by DHS;
- expenditure reports were not submitted on a timely basis for CSSA and Title XX; and
- formalized procedures for Title XX were not documented in detail in the state rules or statutes.

DHS staff indicated that the deviations from the statutes were largely the result of changing from the categorical program guidelines to the block grant administration. The statutes were never updated to reflect the new policies and procedures. After discussing the issues with DHS again in fiscal year 1985, we agreed that revisions to the statutes are necessary to reflect the current policies that are being followed. As a result, DHS intends to initiate a bill to be submitted to the Legislature in the 1986 session. We feel that these changes, with which we concur, are necessary to properly administer the program according to the federal and state block grant requirements.

RECOMMENDATION:

4. *DHS should update Minn. Stat. Chapter 256 to reflect the current policies and procedures for both CSSA and Title XX.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: Contractual agreements are not reviewed for Civil Rights compliance requirements.

The Federal Civil Rights Act states:

"No person shall, on the grounds of race, color, national origin, age, or handicap, be excluded from participation in or be subjected to discrimination in any program or activity funded, in whole or in part, by federal funds. Discrimination on the basis of sex or religion is also prohibited in some federal programs (Age--42 U.S.C 6101 et seq; Race 42--U.S.C. 2000d; Handicap--29 U.S.C. 794)."

DHS has developed an Affirmative Action plan which is designed to protect the civil rights of potential and existing employees by providing equal employment opportunities. The plan specifically states that contractors and subcontractors are to be notified of their affirmative action responsibilities. These responsibilities are discussed in the DHS affirmative action plan. However, while reviewing contractual agreements at DHS in 1985, we discovered that 2 out of 19 contracts sampled for federal programs did not contain a clause citing the Civil Rights requirements. Although the problem is not as extensive as it was in fiscal year 1984 when a majority of the contracts tested did not contain a clause, it does still exist.

In addition, DHS is not verifying that vendors have been issued a certificate of compliance by the Department of Human Rights. A certificate of compliance indicates that the vendor has submitted an affirmative action plan that has met the approval of the Department of Human Rights. Contracts for over \$3,000 (FY 1984) or \$50,000 (FY 1985) must have a certificate of compliance on file as required by Minn. Stat. Section 363.073. DHS staff in charge of contracts stated that they relied on the Attorney General's Office (AGO) to review contracts for the federal requirements. Unless the contracts were sent back by the AGO indicating problem areas, DHS staff assumed that all requirements were met. This practice is in conflict with the AGO contract requirement guidelines which state:

". . . The contract drafter must read all governing laws and regulations to ascertain whether additional contract clauses and terms are required. If the contract is required to comply with specific laws and regulations, this fact should be clearly stated in the contract and the relevant citations should be listed. For example, Title VI of the Civil Rights Act of 1964 prohibits discrimination in programs or activities receiving federal financial assistance."

The AGO guidelines further state that ". . . the reviewing attorney will assume that this requirement has been handled internally within the Department and will not conduct a search for applicable regulations." We concur

with these statements, since DHS staff should be aware of all requirements unique to their programs, whereas AGO staff may or may not be aware of these specific requirements.

RECOMMENDATIONS:

5. *DHS staff should review contracts for all federal programs and include Civil Rights compliance when applicable.*
6. *DHS staff should verify that vendors have been issued a certificate of compliance for contracts over \$50,000 by requesting written verification from the Department of Human Rights.*

PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: County reimbursements for recipient payments are not adequately verified for AFDC, GA, and MSA.

The Pre-Audits Division is responsible for conducting a review of the county abstracts submitted monthly for General Assistance (GA), Minnesota Supplemental Assistance (MSA), and Aid to Families of Dependent Children (AFDC -CFDA #13.808). Abstracts are summaries of payments made by counties to individual recipients.

For GA, Pre-Audits reviews the expenditure abstracts of 20 counties each quarter in order to determine if a county is properly showing the amount of overage for each individual. The overage is the difference between the amount allowed by the state and the amount paid by the county. The counties are allowed to exceed state guidelines provided that the counties provide 100 percent of the overage.

For MSA, Pre-Audits reviews 100 percent of the counties' expenditure abstracts each quarter, but this review is limited to verifying the computation of the state and county share.

For AFDC, each quarter the Pre-Audits Division reviews the amounts submitted for reimbursement of "special needs" on the county abstracts for reasonableness and to determine if they have exceeded their allocation. If there is a question, DHS program people are contacted for approval. However, the county is not contacted and the county source documents are not reviewed. The Pre-Audits Division also verifies 20 counties each month for the correct amount allowed for certain types of recipients according to established scales. Some large counties, such as Hennepin and Ramsey, are only spot checked.

Individual recipient grants for these three programs may vary within a range depending on the recipient's financial status. Without proper financial information, the actual grant award cannot be determined. Pre-Audits currently only verifies that the upper limit or range is not exceeded by any individual recipient since they do not use the recipient financial information available on the DHS Case Information System (DHS 106 Tapes).

The DHS Quality Control (QC) Division already calculates the actual grant award for AFDC recipients using the financial information given. This review is not done for GA or MSA, though, by either QC or Pre-Audits. The

review done by QC on AFDC, however, does not tie the grant award calculation into the amount submitted for reimbursement by the county to the state. Therefore, the amount paid to the individual may differ from the amount paid to the county. If financial information were used on all three programs, a statistically random sample could be taken on a monthly basis. The eligibility information could be used by QC to calculate the actual grant award and then compared to the actual payment made by Pre-Audits instead of performing reasonableness tests on upper program limits. Also, a statistically random sample would provide the most efficient way to obtain the proper audit coverage.

DHS informed us that Pre-Audits and Quality Control did attempt to work together on the September 1984 abstract for AFDC. This combined review indicated several minor differences in payment amounts; however, these variances were not followed up on by either division. We feel that these variances further support our position that a combined review is needed.

RECOMMENDATION:

7. *Pre-Audits should coordinate their efforts with Quality Control in testing a statistically random sample of recipients on the DHS Case Information System tapes each month. GA, MSA, and AFDC eligibility information should be used by Quality Control to calculate the proper grant award and then compared to the payment listed on the county abstracts reimbursed by Pre-Audits.*

PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED: County abstracts are not being reviewed for an authorized signature.

County abstracts, which as explained earlier are reviewed by Pre-Audits, are required to be submitted with the signature of an authorized county official in order to receive reimbursement from the state. This requirement is specified in the Administrative Manuals for Refugee, GA, MSA, and AFDC as follows:

"Certification in ink by the county welfare director, the county auditor, and the county treasurer must be completed before transmittal to the state agency."

While reviewing a statistical sample of payments made during the year, we noted the following weaknesses:

<u>Type of Error</u>	<u>Refugee Program</u>	<u>GA Program</u>	<u>MSA Program</u>	<u>AFDC Program</u>
1. Signed by deputy or some other unauthorized personnel.	13%	57%	50%	68%
2. Signature stamp used in place of an original signature.	0%	7%	10%	0%
3. No signature at all.	<u>0%</u>	<u>1%</u>	<u>10%</u>	<u>2%</u>
Percent of sample in error	<u>13%</u>	<u>65%</u>	<u>70%</u>	<u>70%</u>

When these weaknesses were discussed with DHS staff, we discovered that Pre-Audits is now accepting deputy signatures in place of the elected or appointed official. Pre-Audits also accepts signature stamps in place of an original signature. Neither of the changes has been noted in the Administrative manuals even though DHS has followed these policies for many years. Also, Pre-Audits policy is to send unsigned abstracts back to counties for the proper signature. However, there are still abstracts that are not signed. Since obtaining an authorized signature is a critical control point, we feel that DHS could enforce the requirements more strictly.

RECOMMENDATIONS:

8. *DHS should update the Refugee, GA, MSA and AFDC Administrative Manuals to reflect the changes governing authorized signatures.*
9. *DHS should obtain a list of authorized signatures from each county. The list should be updated annually, and compared to the signatures sent in on the county abstracts each quarter.*

PRIOR RECOMMENDATION NOT IMPLEMENTED: DHS record retention schedules need improvement.

Minn. Stat. Section 138.17 provides the authority for the record retention program established by the Department of Administration. The record retention program procedures require state and local agencies to list all public records including discs, tapes, and other data and the desired retention period. The record retention schedules for state agencies are approved by the Department of Administration, Attorney General, and the Office of the Legislative Auditor. A memorandum from the Office of the Legislative Auditor to all department heads, dated August 29, 1984, requires that records be retained for at least three complete fiscal years after the current processing year. The federal government in Attachment C of OMB Circular A-102 also requires that documentation and all records pertinent to a federal grant should be retained for a period of three years.

Computer files for Medical Assistance and other automated systems have not been listed on the records retention schedules and submitted to the Department of Administration for approval by the records retention panel. By not including computerized records on the record retention schedule, there is a lack of compliance with state and federal requirements, inadequate records for auditing purposes, and the possibility of the loss of vital agency records. DHS should develop a computerized list of all discs, tapes, or other computerized storage devices for its programs. The information needed on the list is as follows:

- A. File name
- B. Form of storage
- C. Term of storage
- D. Description of file contents
- E. Name of files that are updated if only a temporary file

RECOMMENDATION:

10. *DHS should include all computer tapes and files on the records retention system.*

PRIOR RECOMMENDATIONS MODIFIED: Fixed assets are not properly accounted for at DHS.

The Department of Administration's Inventory Management Division has recently changed from the Statewide Fixed Asset Inventory System (SWFAIS) to the Fixed Asset Records Management System (FARMS). Inventory Management has also established the guidelines for fixed asset inventory management in the Fixed Asset Inventory User's Manual (January 1, 1983). Although the manual is being updated for the recent processing changes, it still contains up-to-date requirements on inventory audits and agency controls. The user's manual provides that each state agency must establish an inventory coordinator who is responsible for entering all data detailing any additions, transfers, or retirements on FARMS.

Section 29.F of the manual provides for semi-annual spot-checks of all inventory items. Schedules for spot-checks must be developed in agencies with large fixed asset inventories to ensure that each area is spot-checked periodically. Upon completion of a spot-check, the inventory coordinator should compile a report showing the percentage of accuracy in each area and a list of all assets not located. This report should be retained for three years. If the error rate is 5 percent or greater, a complete inventory of that area must be conducted.

Two samples of assets were selected to verify that required procedures were being followed. The first sample involved randomly selecting assets on the State Property Inventory (SPI) list and then locating them. The second sample involved selecting assets on the grounds and tracing them to the SPI list. A list of the weaknesses noted and the number of sample errors noted is as follows:

- Assets could not be located (3 out of 20)
- Assets were not on the SPI list (2 out of 20)
- Leased property was not marked as such (2 out of 2)

During the transition from SWFAIS to FARMS, problems were encountered in data entry. Numerous location codes and purchase order numbers were dropped erroneously from the department's state property inventory list. Inventory Management has written a program which will allow DHS to retrieve the purchase order numbers; however, the agency inventory coordinator will be responsible for manually retrieving and entering the correct location codes.

FARMS has been on-line since October 1985; however, the inventory coordinator has not entered any acquisitions since June 1985, when Inventory Management no longer accepted SWFAIS input forms. This created a control problem as well as an ever increasing amount of data to input.

Spot-checks are a means of highlighting any weaknesses that exist in a system, and any problems resulting from noncompliance with the established guidelines. If spot-checks would have been used previously, many of the errors noted in our testing would have been discovered at an earlier date. Persons responsible for taking an inventory should be aware of the fixed asset management requirements, and should notify the inventory

coordinator of any changes in the status of their assets. If all fixed assets are not included in the inventory, those responsible for the assets will not have control over the location or use of the items.

DHS has physically reorganized several divisions over the past year, and will be relocating the majority of the assets in a new building shortly. Moves such as these require even stricter controls over fixed assets in order to properly account for all assets.

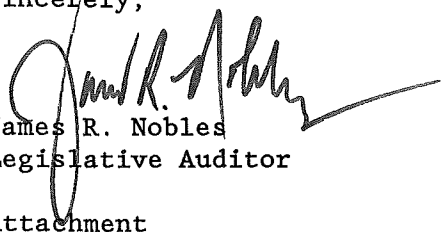
RECOMMENDATION:

11. *DHS should strengthen controls over fixed asset inventory by:*

- *developing a schedule to do semi-annual spot-checks for all divisions within the department;*
- *conducting spot-checks for all areas as soon as possible. Following a spot-check, the inventory coordinator should update the SPI list and complete an appropriate report;*
- *correcting the location codes on the SPI list as soon as possible;*
- *adding all recent acquisitions as soon as possible; and*
- *working with Inventory Management to retrieve the purchase order numbers lost in the conversion.*

Thank you for the cooperation extended to our staff during this audit.

Sincerely,


James R. Nobles
Legislative Auditor

Attachment


John Asmussen, CPA
Deputy Legislative Auditor

February 18, 1986

DEPARTMENT OF HUMAN SERVICES

Attachment

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND

PROGRESS TOWARD IMPLEMENTATION

Administrative controls over federal revenue drawdowns need improvement.

1. Drawdown requests should not be accepted without an authorized signature. An authorized signature list should be established by DHS and filed with the federal grants drawdown clerk.

Recommendation Implemented. These procedures were properly followed during fiscal year 1985. The U.S.D.A. Food and Nutrition Service Division which was assigned responsibility to resolve statewide cash management issues, has indicated their approval in a memorandum to the Department of Finance dated November 22, 1985.

2. All federal grant drawdowns should be processed centrally in the DHS Fiscal Services Division. The Food Distribution Program should not request their drawdowns separately.

Recommendation Implemented. DHS processed drawdowns centrally for all divisions as of November 1985. The U.S.D.A. Food and Nutrition Service Division has indicated their approval in a memorandum to the Department of Finance dated November 22, 1985.

3. DHS should require all program division personnel to properly document any receipt correction transactions (A-23) that are processed. This would require a written notation on the deposit slip, with a reference to the prior deposit number and an explanation of the reasoning involved in initiating the transaction. This recommendation would apply to all federal and state funded programs.

Recommendation Implemented. DHS implemented a new computer system in January 1985 that provides for the proper references. The U.S.D.A. Food and Nutrition Service Division has indicated their approval in a memorandum to the Department of Finance dated November 22, 1985.

Cash balances for federal funds administered by DHS are excessive.

4. DHS should establish written policies and procedures to comply with U.S. Treasury Circular 1075. These should ensure that:
 - drawdowns are monitored centrally;
 - reports submitted by program staff are accurate; and
 - excessive cash balances are not maintained on a program basis.

Recommendation Implemented. DHS developed written procedures on October 4, 1984 to regulate the federal program drawdowns. Cash balances have been reduced overall as a result of these procedures,

4. (con't)

and therefore the recommendation will be shown as implemented. The U.S.D.A. Food and Nutrition Service Division has indicated their approval in a memorandum to the Department of Finance dated November 22, 1985.

DHS is not requesting federal cash on a project by project basis as required by T.C. 1075 and the HHS PMS manual.

5. DHS should comply with the cash management provisions in T.C. 1075 and the HHS manual. Inter-project borrowing should not be allowed.

Recommendation Implemented. DHS did not allow inter-project borrowing during fiscal year 1985 without approval from the grantor agency. The U.S.D.A. Food and Nutrition Service Division has indicated their approval in a memorandum to the Department of Finance dated November 22, 1985.

DHS is not billing indirect costs to all eligible federal programs.

6. DHS should notify all program staff of their indirect cost charges each quarter with a written memorandum.

Recommendation Implemented. During fiscal year 1985, DHS prepared memorandums for all programs that recovered indirect costs. This implementation has not received final acceptance by the federal government.

7. Indirect costs should be recovered from all eligible federal programs, and transferred to the General Fund, unless a waiver is obtained pursuant to Minn. Stat. Section 16A.127

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #1.

Payroll expenditures charged to federal programs are not properly monitored.

8. DHS should establish an employee time distribution system so that only actual hours worked are charged to federal programs.

Recommendation Partially Implemented. See current recommendation #3.

Worker compensation payments are not properly reviewed for overpayments nor for proper accrual rates of sick and annual leave.

9. DHS Central Office should work with state institutions to explain the various rules and regulations and require all payroll divisions to complete buyback calculations when necessary.

Recommendation Implemented.

Federal reports are not being submitted within the required time periods as specified in the Code of Federal Regulations.

10. DHS should submit federal expenditure reports within required time periods or obtain a written waiver of extension from the proper federal grantor agencies.

Recommendation Implemented. Improvements were noted in the timely submission of federal expenditure reports during fiscal year 1985. This implementation has not received final acceptance by the federal government.

11. DHS should use actual amounts when reporting expenditures unless a written waiver is obtained from the federal government to use estimated amounts.

Recommendation Implemented. Estimated expenditures were not used during fiscal year 1985 unless a written waiver was on file. This implementation has not received final acceptance by the federal government.

Rehabilitation Services' Section 110 Financial Status Reports do not reflect actual state expenditures (CFDA #84.126).

12. DHS should report actual state and federal expenditures on the Financial Status Reports for CFDA #84.126 Rehabilitation Services - Basic Support.

Recommendation Implemented. DHS started reporting actual state expenditures on their financial status reports in October 1984. This implementation has not received final acceptance by the federal government.

The C-2 quarterly report amount for Food Distribution and the amount requested on the "Request for U.S.D.A. Reimbursement" form are not reconciled by Aging.

13. DHS Aging Division should institute procedures to verify that the amount of U.S.D.A. reimbursement reported on the C-2 reports equal the reimbursement requested on the "Request for U.S.D.A. Reimbursement" form.

Recommendation Implemented. DHS instituted procedures to reconcile reports during fiscal year 1985. This implementation has not received final acceptance by the federal government.

Federal Financial Status Reports are authorized before completion.

14. The Federal Financial Status Reports should only be signed by the "Signature of Authorized Certifying Official" after the report has been finalized and properly reviewed. In case of absence, a predesignated alternate signature should be obtained.

14. (con't)

Recommendation Implemented. DHS authorized all reports properly during fiscal year 1985. This implementation has not received final acceptance by the federal government.

Performance reports are not being submitted in accordance with U.S. OMB Circular A-102, Attachment I.

15. Performance reports should be submitted for all federal programs administered by DHS unless written waivers have been obtained.

RECOMMENDATION WITHDRAWN. The respective DHS program directors stated that discussions with the appropriate federal administrative staff have indicated a lack of knowledge of this requirement. We have referred this issue to our cognizant audit agency for clarification with federal agencies in a memorandum dated November 25, 1985. This issue has been reported since 1983 and needs to be resolved by the federal government.

Actual expenditures are not compared to allocations on a timely basis for CSSA and Title XX (CFDA #13.667).

16. DHS should seek revision of Minn. Stat. Section 256E.06, Subd. 6 to require that funds be spent within a one year period or returned to the state.

Recommendation Modified. See current recommendation #4.

17. DHS should compare actual expenditures to amounts allocated for CSSA and Title XX in the month following fiscal year-end for each program. Any excess of allocations over expenditures should be returned promptly to the state for further allocation.

Recommendation Modified. See current recommendation #4.

County levies for the state Community Social Services (CSSA) Block Grant are not promptly reviewed by DHS.

18. DHS should compare county levies to county allocations as soon as county budgets are received, and apply Minn. Stat. Section 256E.06, Subd. 7 whenever necessary. A statement of the actual amount levied should be obtained annually from the Department of Revenue.

Recommendation Implemented.

Expenditure reports are not submitted on a timely basis for CSSA and Title XX.

19. DHS should review changes to improve the timely reporting of counties CSSA and Title XX expenditures.

Recommendation Modified. See current recommendation #4.

DHS has not formalized all procedures for the Social Services Block Grant Program (Title XX - CFDA #13.667) in the state rules or statutes.

20. DHS should promulgate rules or regulations to formalize their administrative procedures in implementing the provisions of the Omnibus Budget Reconciliation Act.

Recommendation Modified. See current recommendation #4.

Duplicate payments are being made because of inadequate controls in the warrant writing process.

21. The Systems and Data Flow Division and the Invoice Processing Section cooperatively should work with IMB in updating the audit control and security provisions of the claims processing subsystem of MMIS and the computer processing system at IMB. Recommendations of the study should be implemented as soon as possible.

Recommendation Implemented. An edit change was submitted to IMB during fiscal year 1985 to strengthen controls over duplicate payments. This implementation has not received final acceptance by the federal government.

There is a lack of edits performed on the long-term care post-payment adjustment notification form (DHS 1882) processed through the MA invoice processing subsystem.

22. All edits performed on remittance advices should also be applied to the adjusting payments resulting from the long-term care adjustment notification form (DHS 1882).

Recommendation Implemented. DHS has reviewed the results of a preliminary study on the long-term care system and started implementing some minor changes during fiscal year 1985. Since the system must be completely restructured, considerable time must be allotted to this project. The final deadline for all modifications has not been established yet, although DHS does intend to subject the long-term care payments to the same edits that medical vendor payments are currently subjected to by July 1, 1986. This implementation has not received final acceptance by the federal government.

There are no edits applied to the long-term care MA payments to verify that the reserved bed day policy is not being violated.

23. An edit should be established to verify that the reserved bed day policy is not being violated.

Recommendation Implemented. See discussion in recommendation #22 above.

The MA Case Information File does not contain accurate data on effective dates of change to the recipient's contribution.

24. DHS should implement changes to assure that the effective date of change is correctly updated whenever the institutional continuing amount is revised by the county.

Recommendation Implemented. DHS issued a memo dated March 1, 1985 that instructed counties on the new edit. This implementation has not received final acceptance from the federal government.

PRIOR RECOMMENDATION NOT IMPLEMENTED: The required non- federal matching expenditures of approximately \$1.1 million are unsupported for the Child Welfare Services Program (CFDA #13.645).

25. All DHS and county expenditures reported as the non-federal match should be properly defined and documented centrally. The state plan should specifically address how the non-federal match will be met (i.e. types of services provided) and by what funding source (i.e. county, state, etc.)

Recommendation Implemented. DHS started using state appropriated funds as the required match during fiscal year 1985. This implementation has not received final acceptance from the federal government.

Expenditure guidelines for the Child Welfare Services Program (CFDA #13.645) require clarification.

26. DHS should clarify the types of expenditures in their grant agreement and state plan with the federal grantor agency.

Recommendation Implemented. DHS clarified the types of expenditures in their fiscal year 1985-86 state plan. This implementation has not received final acceptance from the federal government.

Calculations for federal administrative aid need improvement.

27. DHS should implement changes to improve the calculation of county federal administrative aid.

Recommendation Implemented. During fiscal year 1985, DHS developed a computerized system that will improve the controls in this area. This implementation has not received final acceptance from the federal government.

Food stamp overpayment collections are not being credited to the federal government nor returned to the county on a timely basis.

28. The Food Stamp overpayment collections should be reimbursed to the counties and credited to the federal government as appropriate.

Recommendation Implemented. Overpayment collections were properly credited by DHS in fiscal year 1985. This implementation has not received final acceptance from the federal government.

County reimbursements for recipient payments are not adequately verified for AFDC, GA, and MSA.

29. Pre-Audits should coordinate their efforts with Quality Control in testing a statistically random sample of recipients on the DHS 106 tapes each month. GA, MSA, and AFDC eligibility information should be used by Quality Control to calculate the proper grant award and then compare to the payment listed on the county abstracts reimbursed by Pre-Audits.

Recommendation Partially Implemented. See current recommendation #7.

County abstracts are not being reviewed for an authorized signature.

30. DHS should update the GA, MSA and AFDC Administrative Manuals to reflect the changes governing authorized signatures.

Recommendation Partially Implemented. See current recommendation #8.

31. DHS should obtain a list of authorized signatures from each county. The list should be updated annually, and compared to the signatures sent in on the county abstracts each quarter.

Recommendation Partially Implemented. See current recommendation #9.

Controls over purchases of inventory with federal funds requires strengthening.

32. DHS should complete a physical inventory to identify all property acquired with federal funds and maintain the necessary accounting records to comply with Attachment N of Circular A-102.

Recommendation Implemented. DHS added federal codes to the inventory system during fiscal year 1985 to identify assets purchased with federal funds. This implementation has not received final acceptance from the federal government.

Fixed assets are not properly accounted for at DHS.

33. Spot-checks should be conducted in each fixed asset area semiannually by the inventory coordinator.

Recommendation Modified. See current recommendation #11.

34. A complete physical inventory should be taken as soon as possible within the next year.

Recommendation Modified. See current recommendation #11.

DHS record retention schedules need improvement.

35. DHS should include all computer tapes and files on the record retention system. The retention schedules should be revised to provide more detailed descriptions of the records kept on file for all program areas.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #10.

Contractual agreements are not reviewed for Civil Rights compliance requirements.

36. DHS staff should review contracts for all federal programs and include Civil Rights compliance when applicable.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #5.

DHS needs to improve their reporting for federal grant financial activity.

37. DHS should work with Finance to improve methods of federal grant accounting so that the schedules are accurately prepared. DHS should also maintain adequate supporting documentation for the schedules and show the reconciliation to SWA.

Recommendation Implemented. DHS complied with all requirements issued by the Department of Finance during fiscal year 1985. This implementation has not received final acceptance from the federal government.



**STATE OF MINNESOTA
DEPARTMENT OF HUMAN SERVICES
CENTENNIAL OFFICE BUILDING
ST. PAUL, MINNESOTA 55155**

February 18, 1986

Mr. James R. Nobles
Legislative Auditor
1st Floor Veterans Service Bldg.
20 W. 12th Street
St. Paul, MN 55155

Dear Mr. Nobles:

The Department of Human Services is herewith submitting our responses to the draft Management Letter pertaining to the Fiscal Year 1985 statewide audit. It is our understanding that our responses will be published with the Management Letter.

Because of the short time available for completing the responses some of them are fairly brief. The Department of Human Services has a general implementation strategy that calls for more detailed corrective action plans for each recommendation with a departmental review team scrutinizing the plans initially and checking progress thereafter until complete implementation.

Sincerely,

A handwritten signature in dark ink, appearing to read "Leonard W. Levine".

LEONARD W. LEVINE
COMMISSIONER

cc: Frank Giberson
Renee Redmer
Jon Darling

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RECOMMENDATIONS

1. Indirect costs should be recovered from all eligible federal programs and transferred to the General Fund, unless a waiver is obtained pursuant to Minn. Stat. Section 16A.127.

RESPONSE #1

The CFDA 13.633 (Aging) overcharge of \$112,635 will be refunded to the appropriate federal account. Financial management staff will continue to notify Aging program staff of the proper amount to be transferred each quarter and this amount will be transferred to the general fund. A meeting has been held with Aging Division staff, confirmed by memo, so that there is now understanding of the transfer requirements and procedures.

The CFDA 13.646 (WIN) and CFDA 13.667 (Title XX Block Grant) statewide indirect costs will be transferred to the general fund beginning fiscal year 1986. These funds have not been transferred in the past due to the limitation of federal funds. Agencywide indirect costs for these two programs have not been transferred up to the full amount earned also because of the limitation of federal funds. To transfer the entire amounts earned would result in a reduction of funding available to recipient county agencies. In the future, the total amounts to be transferred will be discussed with the program managers to determine whether additional funding should be retained for state office expenditures.

The CFDA 13.808 (AFDC Administration) error in transfer will be adjusted in the quarter ended December 31, 1985.

CFDA 84.126 (Blind Services) - Effective October 1, 1985 this unit was transferred to the Department of Jobs and Training. Financial Management staff has notified Blind Services each quarter the correct amount to be transferred and will continue to do so. It will be the responsibility of the Department of Jobs and Training to make the appropriate transfer. These funds have not been transferred in the past due to a limitation of federal funds. Transfers to the general fund would mean a reduction in funds of over \$400,000 available to provide direct services to Blind & Visually Handicapped clients.

The CFDA 13.814 (Indochinese Refugee Assistance) \$711 will be adjusted in transfers made for the quarter ended December 31, 1985.

Person Responsible: Lyle Koenig

2. DHS Fiscal Services Division should reconcile amounts allocated to actual amounts transferred to DOF on a quarterly basis. All variances should be resolved immediately.

RESPONSE #2

Automation of the state administrative cost allocation process remains a high priority of this department. Due to lack of available resources this automation has been delayed. When automated, errors which occur in the complex manual allocation of costs, should be reduced significantly.

A reconciliation of allocated and transferred amounts will be made by Financial Management staff and reviewed with the Finance Director on a quarterly basis effective immediately.

Person Responsible: Lyle Koenig

3. DHS should establish an employee time distribution system so that only actual hours worked are charged to federal programs.

RESPONSE #3

DHS has recognized that there could be improvements in the employee time distribution system for the Child Welfare program and progress has been made. A consultant (Data Management Associates) was engaged to review the situation. The consultant has completed the study of payroll time distribution in county Human Services Agencies and the resulting recommendation (a random moment time study) was accepted by DHS top management and is being implemented. The consultant is close to finalizing recommendations on DHS Central Office employee time distribution in the Social Services area. In addition DHS sought and obtained appropriation bill rider language which will allow the flexibility to make changes in the Child Welfare time distribution system when a decision is made. It must be recognized that changes in this area are not simple or easily made and they will require resources that are in increasingly short supply.

DHS would like to make clear the fact that our methods of allocating employee time to various programs and claiming federal administrative reimbursement are included in our cost allocation plan and have been approved by the Federal Division of Cost Allocation. DHS is subject to regular federal reviews in this area and has had minimal questions raised. As recently as the week of February 3-7, 1986 a reviewer from the Office of Family Assistance regional office gave special attention to the methods and procedures of allocating salaries and administrative costs to the AFDC program. She stated in the exit conference that there was no problem. The Health Care Financing Agency and the Office of Refugee Resettlement have also done reviews.

Person Responsible: Jon B. Darling

4. DHS should update Minn. Stat. Chapter 256 to reflect the current policies and procedures for both CSSA and Title XX.

RESPONSE #4

The findings for this recommendation have four parts:

- A. Actual expenditures are not compared to allocations on a timely basis for CSSA and Title XX.

RESPONSE

The comparison of expenditures to allocations is appropriate only at the end of the allocation period (calendar year for CSSA and federal fiscal year for Title XX) to verify that each county has met the expenditure requirements. Additionally, the two year spending requirement in CSSA complicates this comparison process, making it almost useless.

The Department has discussed a statute change with the Legislative Auditor's office which would change the CSSA spending requirement to be a one year period. If this change is made it will be important to make this comparison on a timely basis. However, in actuality, all counties are spending an amount of county levy in excess of their CSSA entire Title XX allocation.

- B. County levies for CSSA are not reviewed promptly by DHS.

RESPONSE

On December 20, 1984 the Department requested that the Department of Revenue annually furnish a list of certified county levies for social services. The list of 1985 levies was furnished by the Department of Revenue on September 10, 1985. The comparison of levy to allocation for 1985 resulted in every county meeting the levy requirement.

The Department has discussed a statute change with the Legislative Auditor's office which would eliminate the levy requirement for CSSA.

- C. Expenditure reports are not submitted on a timely basis for CSSA and Title XX.

RESPONSE

See response to #4 A. above.

Currently MS 256E.08 Subd. 8 requires counties to submit quarterly reports no later than 15 days after the end of the calendar quarter. This time limit is very difficult for counties to meet. The Department is proposing to change the time limit to 30 days.

- D. Formalized procedures for Title XX are not documented in detail in the state rules or statutes.

RESPONSE

The Department has recently promulgated a Rule Governing the Administration of Community Social Services, which formally addresses administrative procedures.

Person Responsible: Al Hanzal

5. DHS staff should review contracts for all federal programs and include Civil Rights compliance when applicable.

RESPONSE #5

The DHS Contracts Officer is now reviewing all contracts for compliance with Civil Rights rules. DHS staff is being informed up front, when initiating a contract where the Civil Rights compliance clause is applicable, of the need for the contractor to have a certificate on file with the Department of Human Rights. In addition, the DHS contracts manual is being updated to include this requirement.

Person Responsible: Gerald Joyce

6. DHS staff should verify that vendors have been issued a certificate of compliance for contracts over \$50,000 by requesting written verification from the Department of Human Rights.

RESPONSE #6

The DHS Contracts Officer is now receiving a biweekly list of certified contractors from the Department of Human Rights. If a contractor is not on the list, the Department of Human Rights is notified and they take steps to have the contractor submit a plan and become certified. A DHS contract is not finally approved until this is done and a certificate is issued. In addition, contractors that don't meet the requirements can be issued a letter of exemption from the Department of Human Rights. This letter will be requested by DHS from all contractors who claim exemption.

Person Responsible: Gerald Joyce

7. Pre-Audits should coordinate their efforts with Quality Control in testing a statistically random sample of recipients on the DHS Case Information System tapes each month. GA, MSA and AFDC eligibility information should be used by Quality Control to calculate the proper grant award and then compared to the payment listed on the county abstracts reimbursed by Pre-Audits.

RESPONSE #7

This recommendation was implemented for AFDC commencing with reports submitted for November 1985. The process will be a post payment review rather than a pre-audit because the final results of the Quality Control review are not completed until 120 days after the review month.

Quality Control will provide Pre-Audits with the review sample list when it is initially determined. During the monthly review, Pre-Audits will record the amount claimed for reimbursement on the county abstract for each case. Pre-Audits will compare the final Quality Control results to the amount claimed on the county abstract sometime after the results are received from Quality Control (about 120 days). The county will be required to account for any differences. Unexplained differences will be treated as ineligible expenditures.

GA and MSA will not be included in the process because there is no Quality Control review for those programs, as stated in last year's response to this recommendation. Possible other methods of satisfying the spirit of this recommendation will be discussed with the State Auditor's staff.

Person Responsible: Bruce Lien

Completion Date: Implemented for AFDC November 1985.

8. DHS should update the Refugee, GA, MSA and AFDC Administrative Manuals to reflect the changes governing authorized signatures.

RESPONSE #8

The Department will comply with this recommendation in the next several months. The narrative regarding signature requirements in the Administrative manual sections for these programs will be reworded to read as follows:

"Signatures of the County Director, Auditor and Treasurer or other county officials delegated the authority to sign on their behalf, are required on at least one copy of the report form. Additional copies of the form required will be accepted with signature stamps or may be photocopies of the original."

Person Responsible: Bruce Lien

Completion Date: June 1, 1986

9. DHS should obtain a list of authorized signatures from each county. The list should be updated annually, and compared to the signatures sent in on the county abstracts each quarter.

RESPONSE #9

It is our opinion that this is an unnecessary and overly burdensome procedure for the following reasons. First, the State Auditor has the responsibility to audit counties. We believe their audit should include a check to see that the proper county officials have authorized payments from county funds. We will explore with State Auditors staff the possibility of including this check routinely in their audits of counties. Secondly, if the pre-audit

section were to perform such a review it could not be done as a pre-audit review. The time available to pre-audit county reports in the monthly cycle is so short (6 working days at most) that the addition of a review for signatures against a list submitted by the county is an additional burden that would slow down the process and achieve little if any benefit.

We will look at the possibility that this could be accomplished as a post review procedure in the slower period of the monthly cycle, but still believe it is unnecessary. We would like to point out that Pre-audits has required signature of the county officials on these reports for many years, and has taken additional effort since May, 1985 to assure that signatures have been affixed to at least one copy of the report. This copy of the report is filed in the SWA payment transaction file.

Person Responsible: Bruce Lien

Completion Date: June 1, 1986 - Review options

10. Department of Human Services should include all computer tapes and files on the records retention system.

RESPONSE #10

The Department recognizes that most computerized files for Medical Assistance are not listed on the records retention schedules. Some computer files are listed which are maintained by the program staff, but those maintained by the Information Management Resources Division (IMRD) are not listed. The significant paper files are listed. In order to fully include all files, described below is our schedule to incorporate the computerized files. IMRD has assigned an individual to be responsible for managing this effort.

Person Responsible: Art Stiff

Implementation Schedule:

1. January 1-May 15, 1986 Inventory: Review all computerized systems at DHS.
 - a. Develop records retention schedules
 - b. Review existing schedules for accuracy, currentness, and completeness and revise as necessary
2. June 1 - Send to Panel: Send completed records retention schedules to Records Disposition Panel.
3. July 1, 1986 - implementation completed.

11. DHS should strengthen controls over fixed asset inventory by:
- developing a schedule to do semi-annual spot-checks for all divisions within the department;
 - conducting spot-checks for all areas as soon as possible. Following a spot-check, the inventory coordinator should update the SPI list and complete an appropriate report;
 - correcting the location codes on the SPI list as soon as possible;
 - adding all recent acquisitions as soon as possible; and
 - working with Inventory Management to retrieve the purchase order numbers lost in the conversion.

RESPONSE #11

DHS has been working on this area over the past year in an effort to strengthen fixed asset inventory controls. However, progress has been slow due to several factors which make control difficult.

1) DHS is physically divided into several locations; 2) the Inventory Management transition from SWFAIS to FARMS did not go smoothly - it was impossible to input new acquisitions for some time, data was dropped erroneously from the file, and assets belonging to State Services for the Blind were not removed when that unit was transferred from our agency, and 3) DHS is understaffed in this area.

We hope that the pending consolidation of the DHS central offices will make centralized inventory accounting easier to manage. Our goal is to implement many of the recommended steps by July 1, 1986. We will do this according to the schedule below:

- | | |
|--|-----------------|
| - Develop a network of division inventory liaisons (see attachment A) | March 1, 1986 |
| - Add all recent acquisitions to SPI list | March 15, 1986 |
| - Provide training on procedures for Inventory liaisons (see attachment B) | April 1, 1986 |
| - Correcting the location codes on the SPI list | April 1, 1986 |
| - Retrieve data lost in the conversion to FARMS | June 1, 1986 |
| - Develop a schedule for spot checks | June 15, 1986 |
| - Reconcile SPI list with physical inventory in preparation for office moves | July 1, 1986 |
| - Reconcile SPI list with physical inventory after office consolidation | January 1, 1987 |

Attachment

Person Responsible: Linda Nelson



STATE OF MINNESOTA
DEPARTMENT OF HUMAN SERVICES
CENTENNIAL OFFICE BUILDING
ST. PAUL, MINNESOTA 55155

To: Division Directors

From: Francis E. Giberson
Deputy Commissioner

Subject: Fixed Asset Inventory

Recent federal and state audit reports have cited problems with the accuracy of our central office fixed asset inventory records. In response to these reports, and in light of the pending office consolidation, it is very important that we keep our inventory records updated.

As DHS moves staff into modular office system furniture, the pieces of furniture which are no longer needed will first be made available to the DHS staff who will not be located in modular workstations. All remaining furniture will be made available for the regional treatment facilities. As you can imagine, it will be quite a task to keep track of each piece throughout the move. Yet, it is essential that our records be complete and accurate so that we are not subject to any audit exceptions, and the potential loss of federal participation.

The Management Operations Division will soon be completing a physical check of our inventory of central office equipment and furniture. However, these records cannot be accurately maintained unless Management Operations is notified each time a piece of furniture or equipment is moved. We do not want you to restrict the "trading" of equipment and furniture during the next few months. In fact, we encourage that essential items which are in good repair be brought to our new offices, and that our fixed asset inventory be updated to show the new location of these items.

To comply with audit recommendations, each division is asked to assign one person who will be responsible for keeping track of fixed assets and notifying the coordinator of any changes in the status of your division's inventory. Please contact Linda Nelson, at 296-6633, with the name of your inventory liaison by February 27, 1986. Information and update forms will be available to each liaison.

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From: _____
(Name) (Phone) (Date)

[illegible]