DEPARTMENT OF HUMAN SERVICES
MANAGEMENT LETTER
FISCAL YEAR 1986

FEBRUARY 1987

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Ms. Sandra S. Gardebring, Commissioner
Department of Human Services
4th Floor, Centennial Office Building
658 Cedar Street
St. Paul, Minnesota 55155

Dear Commissioner Gardebring:

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 1986 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:

CFDA NUMBER	PROGRAM
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
13.658	Foster Care
13.667	Social Services Block Grant
13.679	Child Support Enforcement
13.714	Medical Assistance
13.777	State Health Care Providers
13.808	Assistance Payments - Maintenance (AFDC)
13.814	Refugee Assistance - State Administered
13.992	Alcohol and Drug Abuse and Mental Health Services Block Grant

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 1986. 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," or "PRIOR RECOMMENDATIONS PARTIALLY IMPLEMENTED." 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 1985 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 PARTIALLY 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."

Indirect costs are allocated by the DHS Financial Management Division to the various federal programs as provided by the cost allocation plan. The Financial Management Division sends quarterly notification letters to the program divisions showing both statewide and agency indirect cost charges. The program staff are responsible for requesting the federal funds for the allocated amounts of indirect costs and making the appropriate transfers to the General Fund.

Our 1985 audit disclosed that eight of the thirteen programs reviewed were not reimbursing the General Fund for both statewide and agency indirect costs. Our 1986 review indicated that DHS has made improvements since 1985; however, an exception was still noted for the Work Incentive Program. The Work Incentive Program (CFDA #13.646) staff have not fully reimbursed the General Fund for statewide and agency indirect costs for three consecutive years. Program staff stated that because of a decrease in federal funding over the past few years, the amount awarded is allocated to direct program costs first and any remaining funds are applied to indirect costs. This resulted in a total underpayment to the General Fund of $116,229 in indirect cost charges for 1986 (Agency--$111,022, Statewide--$5,207). DHS should review future Work Incentive grant awards and budgeted expenditures to ensure that sufficient funds are allocated to pay for indirect costs. Any exceptions to paying indirect costs must be authorized by the Department of Finance in accordance with Minn. Stat. Section 16A.127.

DHS also reimbursed the General Fund amounts in excess of the indirect cost charges for two programs in 1986:

(1) Title XX (CFDA #13.667) program staff requested and transferred the budgeted amount for agency indirect costs to the General Fund. The budget for indirect costs exceeded the actual amount allocated to the program as shown in the notification letters prepared by the Financial Management Division. The actual amount allocated should have been transferred to the General Fund rather than the budgeted amount. This resulted in an overcharge to the federal grant for agency indirect costs and an overpayment to the General Fund of $315,987 (budgeted amount of $2,122,000 less allocated amount of $1,806,013). As of December 31, 1986, a correction has not been made.

(2) Child Support Enforcement (CFDA #13.679) staff transferred an incorrect amount of indirect costs to the General Fund. This was caused by an error in the amount shown on the June 30, 1986 notification letter received from the Financial Management Division. The error resulted in an overcharge to the federal grant and an overpayment to the General Fund of $54,738. As of December 31, 1986, this error has not been corrected.

The Financial Management Division must strengthen the controls over the indirect cost reimbursement process to ensure that program divisions are reimbursing the General Fund the correct amounts. The Financial Management Division should monitor the amounts transferred to the General Fund to ensure proper collection of indirect cost charges for the various divisions. Financial Management should initiate actions on any variances immediately and ensure that the program managers understand the indirect cost requirements and reimburse the General Fund appropriately. Actual amounts allocated in accordance with the cost allocation plan should be reimbursed rather than budgeted amounts. All program managers must reimburse the General Fund for their respective allocations of indirect costs unless a waiver is obtained from the Department of Finance.

RECOMMENDATIONS:

1. *Indirect costs must be recovered from the Work Incentive Program and transferred to the General Fund, unless a waiver is obtained from the Department of Finance pursuant to Minn. Stat. Section 16A.127.*

2. *Adjustments should be made for excess amounts of indirect costs charged to the following programs:*

   Title XX (#13.667) - $315,987

   Child Support Enforcement (#13.679) - $54,738

3. *The Financial Management Division should reconcile indirect costs allocated to the amounts transferred to the General Fund. The division should resolve any variances immediately with the program managers.*

DHS overpaid county administrative aid for the Foster Care Title IV-E Program (CFDA #13.658).

DHS received $1.14 million in federal funds for fiscal year 1986 to administer the Foster Care Program in Minnesota. These funds were used for:

- state and local administrative and training costs; and
- maintenance assistance for foster care children.

Counties determine program participant eligibility and process the maintenance payments. Costs incurred by the counties for administration, training, and maintenance payments are reimbursed by DHS based on federal participating reimbursement rates.

The U.S. Department of Health and Human Services, Office of Human Development Services, Administration for Children, Youth and Families--Children's Bureau authorizes Minnesota's annual award for the Foster Care Program. The amount authorized is allocated between three separate activities: Maintenance Payments, State and Local Training, and State and Local Administrative Aids. DHS erroneously reimbursed the counties $204,000 in excess of the authorized allocation for 1984 administrative aids. In an attempt to correct this error, DHS inappropriately used $204,000 of the 1985 maintenance allocation to fund the 1984 county administrative aids overpayment. DHS prorated the remainder of the 1985 maintenance allocation to the counties. DHS did not obtain prior approval from the federal grantor agency to adjust the administrative and maintenance allocations for 1984 and 1985. This resulted in the Foster Care Program funds being used for purposes other than authorized by the federal grantor agency. DHS may have distributed the funds on an inequitable basis since the counties that received the additional administrative aids may not have been eligible for the same amount of maintenance aids. Maintenance assistance for foster care children was also reduced by the excessive administrative aid payments.

DHS should monitor the administrative and maintenance reimbursements to ensure that the authorized amounts are not exceeded. Additionally, the U.S. Office of Management and Budget's Circular A-102, Attachment K requires grantees to report to the grantor agency deviations from grant budgets and to request approval for any budget revisions. DHS should not revise the program budget without seeking prior approval from the federal government.

RECOMMENDATION:

4. *DHS should work with the federal grantor agency to resolve the overpayment of 1984 administrative aids. DHS should seek approval from the federal grantor agency for any future budget revisions.*

<u>PRIOR RECOMMENDATION PARTIALLY IMPLEMENTED: Contractual agreements are not reviewed for Civil Rights compliance requirements</u>.

Minn. Stat. Section 363.073 does not allow any department to accept a bid or proposal in excess of $50,000 with any business having more than 20 full-time employees unless the firm has an affirmative action plan. When an affirmative action plan is submitted and approved by the Department of Human Rights (DHR), a certificate of compliance valid for two years is issued. The Minnesota Code of Agency Rules, Section 5000.3600 requires state departments to determine if prospective bidders for state contracts have the certificate of compliance issued by DHR. The Minnesota Department of Administration's Policy and Procedure Manual ADM-188, Amendment No. 1 states that a copy of the current certificate of compliance should accompany all proposals for contracts in excess of $50,000. Contractors may also certify that they do not have more than 20 employees to document exemption from this requirement.

Contractual agreements were not reviewed for civil rights compliance requirements by DHS. DHS had not verified the filing of certificates of compliance or exemptions for 12 of the 13 contracts reviewed in 1986. The 12 contracts totalled approximately $1.7 million. We contacted DHR on November 24, 1986 and determined that certificates of compliance had not been issued by DHR to the 12 contractors. DHS' failure to verify the existence of a certificate of compliance or exemption resulted in contracts being issued in violation of Minnesota statutes. DHS should not accept proposals from contractors that do not document evidence of a certificate of compliance issued by the Department of Human Rights.

RECOMMENDATION:

5. *DHS should determine that certificates of compliance or documentation of exemptions accompany all proposals for contracts in excess of $50,000. Proposals should not be accepted by DHS without the required documentation.*

<u>The method of allocating aid to counties for the Work Incentive Program (CFDA #13.646) should be based on current data and be properly supported</u>.

DHS was awarded $1.2 million by the U.S. Department of Health and Human Services, Office of Human Development Services, to operate the Work Incentive Program (WIN) in federal fiscal year 1986. DHS granted these funds to the counties to assist WIN participants gain employment by providing social and employment services, including child care, family planning, and counseling services. DHS allocates the grant award and notifies the counties of their award amounts. 45 CFR 224.15 (c) provides that the WIN grant may be used to meet 90 percent of the cost of supportive services. The counties are reimbursed quarterly and receive a total amount equal to 90 percent of their annual expenditures not exceeding their grant allocation. Any funds remaining at the end of the federal fiscal year are prorated to counties whose award did not equal 90 percent of their expenditures.

The amounts allocated to the counties in 1986 were based on percentages derived in 1981. Staff were unable to provide us with any support as to the specific data or information used in developing the allocation percentages. We believe that the use of 1981 data provided an inequitable distribution of WIN funds because the county caseload and expenditures have changed significantly over the last few years. Our review of the allocation of the 1986 grant award showed that because the allocation formula has not been adjusted for changes in caseloads, the final distribution amounts to the counties were inequitable. Only 9 of the 27 counties participating in WIN were reimbursed up to 90 percent of their expenditures. Seven counties received 50 percent or less of their expenditures, with two counties receiving only 28 percent. DHS should use a method of allocating funds that results in an equitable distribution to all counties.

RECOMMENDATION:

6. *DHS should revise their allocation process to use current caseload information and maintain the documentation to support the allocation.*

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

Sincerely,

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

Attachment

February 6, 1987

<u>Attachment</u>

DEPARTMENT OF HUMAN SERVICES

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND
PROGRESS TOWARD IMPLEMENTATION

<u>The Department of Human Services is not billing indirect costs to all eligible federal programs</u>.

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

RECOMMENDATION PARTIALLY IMPLEMENTED. Indirect costs were recovered for most of the federal programs reviewed in 1986; however, costs were not fully recovered for the Work Incentive Program. See current recommendation #1.

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.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #3.

<u>Payroll expenditures charged to federal programs are not properly monitored</u>.

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

RECOMMENDATION IMPLEMENTED. In fiscal year 1986, DHS developed a cost allocation plan charging employee time to federal programs based on a ratio determined by a Random Moment Time Study. This plan was approved by the Division of Cost Allocation of the U.S. Department of Health and Human Services, effective October 1, 1985.

<u>CSSA and Title XX statutory requirements conflict with DHS current policy</u>.

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

RECOMMENDATION IMPLEMENTED. In fiscal year 1986, DHS instituted procedural changes for the CSSA and Title XX programs, including the timely review of county levies and the monitoring of county expenditure reports. Procedures for Title XX were included in the agency rules, and a bill was submitted to the 1986 Legislature changing the requirement for a review of expenditures within a two-year time period. This implementation has not received final acceptance from the federal government.

Contractual agreements are not reviewed for Civil Rights compliance requirements.

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

RECOMMENDATION IMPLEMENTED. DHS included an affirmative action clause on contracts issued during fiscal year 1986. We tested contracts for all material federal programs and determined that DHS complied with the Civil Rights requirement. This implementation has not received final acceptance from the federal government.

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.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #5.

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

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.

RECOMMENDATION IMPLEMENTED. Additional information provided by DHS indicates that Quality Control tests the eligibility of recipients on the Case Information History File for MA and AFDC. The amounts paid for MA are verified to the Master Claims History File (Payments File) for the recipients sampled. For AFDC, amounts paid are matched to county abstracts. This process has been approved by the Federal Regional Administrator, Office of Family Assistance, U.S. Department of Health and Human Services on February 3, 1986.

County abstracts are not being reviewed for an authorized signature.

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

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. DHS revised the MSA Administrative Manual on August 30, 1985 to reflect the changes governing authorized signatures. Similar revisions are being prepared for Refugess, GA, and AFDC Administrative Manuals. This implementation has not received final acceptance from the federal government.

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.

9. (con't)

RECOMMENDATION IMPLEMENTED. The DHS Financial Management Division contacted the Minnesota Office of the State Auditor on September 9, 1986 and determined that authorized signatures on abstracts are examined during Single Audits of the counties. The division also instituted procedures in 1986 to return any unsigned abstracts to the counties. Payments are withheld by the division until receipt of a properly signed abstract. These procedures should provide the additional assurances necessary that signatures are appropriate. This implementation has not received final acceptance from the federal government.

DHS record retention schedules need improvement.

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

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. DHS identified in August 1986, all computer records to be included on the records retention schedule. A time schedule is being developed for these records in order to submit them to the Records Retention Panel. This implementation has not received final acceptance from the federal government.

Fixed assets are not properly accounted for at DHS.

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.

RECOMMENDATION SUBSTANTIALLY IMPLEMENTED. DHS assigned an additional employee in October 1986, to reenter all departmental fixed assets into the Fixed Asset Records Management System. In addition, DHS has discussed with the Inventory Management Division of the Department of Administration possible dates in January 1987 for training sessions on inventory management procedures, including spot-checks of the fixed asset inventory.

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

February 6, 1987

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 1986 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. Corrective action has already begun in most cases.

Sincerely,

Sandra Gardebring

SANDRA S. GARDEBRING
COMMISSIONER

cc: Chuck Schultz
Renee Redmer
Jon Darling

DEPARTMENT OF HUMAN SERVICES RESPONSES
LEGISLATIVE AUDITOR'S RECOMMENDATIONS
FISCAL YEAR 1986 STATEWIDE AUDIT

RECOMMENDATION #1

Indirect costs must be recovered from the Work Incentive Program and transferred to the General Fund, unless a waiver is obtained from the Department of Finance pursuant to Minn. Stat. Section 16A.127.

RESPONSE:

Since the federal award for the Work Incentive (WIN) Program is small and has been declining a policy decision was made to hold the allocation percentages between counties and central office approximately equal from year to year. This decision meant more funds for counties but less for the central office. This is not expected to be a problem in the future since the transfer of WIN to another state agency will result in significantly less Department of Human Services (DHS) costs allocated to the WIN program. The DHS central office allocation is anticipated to be sufficient to cover all costs either direct or allocated, of the WIN Program.

Person Responsible: Pat Callaghan
Projected Completion Date: March 31, 1987

RECOMMENDATION #2:

Adjustments should be made for excess amounts of indirect costs charged to the following programs:

Title XX (#13.667) - $315,987

Child Support Enforcement (#13.679) - $54,738

RESPONSE:

The Title XX adjustment depends on an interpretation of a subdivision of Minnesota Statutes 256E.07. Input from the Attorney General's staff is being obtained. As soon as the interpretation is clarified the appropriate adjustment will be made.

Persons Responsible: Gary Haselhuhn, Dave Bren
Projected Completion Date: March 1, 1987

The child Support Enforcement will be made for the quarter ended March 31, 1987.

Person Responsible: Rebecca Anderson
Projected Completion Date: April 30, 1987

RECOMMENDATION #3:

The Financial Management Division should reconcile indirect costs allocated to the amounts transferred to the General Fund. The division should resolve any variances immediately with the program managers.

RESPONSE:

Procedures for an independent review and reconciliation process have already been put into place. The independent review began with the quarter ending September 30, 1986.

Person Responsible: Rebecca Leschner
Projected Completion Date: Completed

RECOMMENDATION #4:

DHS should work with the federal grantor agency to resolve the overpayment of 1984 administrative aids. DHS should seek approval from the federal grantor agency for any future budget revisions.

RESPONSE:

The adjustment necessary has been made. It must be noted that the administrative costs paid were reimbursements of legitimate county costs. The payment was charged to the maintenance component of the grant award because there were not sufficient funds allocated to the administrative component of the award. Cash management procedures have been put in place since the time this situation occurred prohibiting use of funds for anything other than their authorized purpose so this situation will not arise again.

Person Responsible: Rebecca Leschner
Projected Completion Date: Completed

RECOMMENDATION #5"

DHS should determine that certificates of compliance accompany all proposals for contracts in excess of $50,000. Proposals should not be accepted by DHS without the required certificates.

RESPONSE:

DHS has reviewed the status of the 12 contracts mentioned in the Management Letter. Of the 12, three are grants and are not required to have a certificate of compliance; seven are exempt because they have less than 20 employees; one (the University of Minnesota) had a certificate of compliance but DHS did not have a copy in the file; and one was for a contract that had been bid before Human Rights procedures were in place.

DHS is obtaining a copy of the certificate of compliance from the University of Minnesota and is obtaining evidence of exemption from the other contractors. The contract procedures manual has been revised to include this requirement.

Person Responsible: Gerald Joyce
Projected Completion Date: Procedures-completed
Receipt of certificate and evidence of exemption - March 1, 1987

RECOMMENDATION #6:

DHS should revise their allocation process to use current caseload information and maintain the documentation to support the allocation.

RESPONSE:

The Department accepts this recommendation. If the WIN Program is extended beyond the currently anticipated termination date of June 30, 1987 a revised allocation process will be developed and implemented.

Person Responsible: Pat Callaghan
Projected Completion Date: October 1, 1987