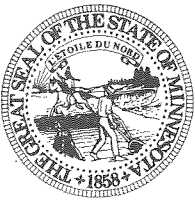


**DEPARTMENT OF HUMAN SERVICES  
FINANCIAL AND COMPLIANCE AUDIT  
FOR THE THREE YEARS ENDED JUNE 30, 1988**

**MARCH 1989**





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator Randolph W. Peterson, Vice-Chairman  
Legislative Audit Commission

Members of the Legislative Audit Commission

and

Ms. Sandra S. Gardebring, Commissioner  
Department of Human Services

**Audit Scope**

We have completed a financial and compliance audit of the Department of Human Services for the three years ended June 30, 1988. Section I provides a brief description of the Department of Human Services's activities and finances. Our audit was made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the U. S. General Accounting Office Government Auditing Standards, and accordingly, included such audit procedures as we considered necessary in the circumstances. Fieldwork was completed on January 31, 1989.

We have issued separate management letters, dated February 6, 1987 and March 1, 1988, as part of our Statewide Financial and Single Audit work in the department for fiscal years 1986 and 1987. The management letters contained six recommendations for 1986, and eight recommendation for fiscal year 1987. We also issued a follow-up letter on December 12, 1988 relating to the status of resolution of the issues discussed in the departmental audit report for the three years ended June 30, 1985.

The objectives of the audit were to:

- study and evaluate agency internal controls over assets, liabilities, revenues, and expenditures;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including finance-related laws and regulations, and federal laws and regulations pertaining to the federal programs included in the Single Audit scope; and
- verify that financial transactions for the year ended June 30, 1988, were properly recorded on the statewide accounting system and appropriately included in the State of Minnesota's Comprehensive Annual Financial Report and supplemental Statements of Expenditures for federal programs included in the Single Audit scope:

<u>CFDA #</u>	<u>Program</u>
10.551	Food Stamps
13.125	Mental Health Planning
13.146	AIDS Drug Reimbursement Program
13.633	Special Program for the Aging Title III, Parts A and B
13.645	Child Welfare Services
13.658	Foster Care
13.667	Social Services Block Grant
13.670	Child Abuse and Neglect Prevention and Treatment Program
13.714	Medical Assistance
13.780	Assistance Payments - Maintenance
13.783	Child Support Enforcement
13.787	Refugee Assistance - State Administered
13.992	Alcohol and Drug Abuse, Mental Health Services Block Grant

#### Management Responsibilities

The management of the Department of Human Services is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objective of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Department of Human Services is also responsible for the agency's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the Department of Human Services. The purpose of our testing of transactions was to obtain reasonable assurance that the Department of Human Services had, in all material respects, administered its programs in compliance with applicable laws and regulations.

#### Audit Techniques

The Statewide Financial and Single Audit for the year ended June 30, 1988, covered major state and federal programs as listed above. Other state programs reviewed in 1988 included General Assistance, Minnesota Supplemental Assistance, Community Social Services Act, and Work Readiness. Departmental audit work also completed this year covered the three years

ended June 30, 1988. Departmental work supplements the Statewide Financial and Single Audits. Departmental coverage was specifically designed to review administrative expenditures, including payroll, travel, contractual services, and fixed assets.

#### Status of Prior Audit Findings

The status of findings related to the Statewide Financial Audit for 1987 and the unresolved issues from the departmental audit for 1983-1985 were reviewed. We concur with the corrective actions taken by the department relative to these findings, except for finding 8 reported in the 1987 management letter, and findings 1 and 2 reported in the 1983-1985 audit report. These issues were carried forward to the current report and are discussed further in Section II, findings 1 and 6. These unresolved issues relate to improvements needed in processing contracts and in monitoring subrecipient audits.

Findings 1 and 2, relating to indirect costs, from the 1987 management letter, were substantially implemented. For 1988 DHS is negotiating a settlement for about \$250,000 of federal funds for indirect costs due the General Fund. The department should resolve this settlement timely and ensure that indirect costs related to federal programs are paid to the General Fund in the future.

#### Conclusions

In our opinion, except for the issues raised in Section II, findings 2, 3, and 10, the Department of Human Services's system of internal accounting control in effect on January 31, 1989, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

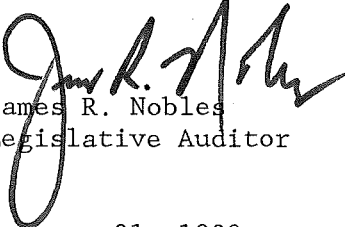
In our opinion, except for the issues raised in Section II, findings 1, 4-9, 11-13, for the year ended June 30, 1988, and findings 1-5 reported in the management letter dated March 1, 1988, for the year ended June 30, 1987, and findings 2, 4, and 5 reported in the management letter dated February 6, 1987, for the year ended June 30, 1986, the Department of Human Services administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.


In our opinion, for the three years ended June 30, 1988, the Department of Human Services properly recorded, in all material respects, its financial transactions on the statewide accounting system, and such transactions were appropriately reported in the State of Minnesota's Comprehensive Annual Financial Report and supplemental Statements of Expenditures for federal programs.

Senator Randolph W. Peterson, Vice-Chairman  
Members of the Legislative Audit Commission  
Ms. Sandra S. Gardebring, Commissioner  
Department of Human Services  
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The recommendations included in this report are presented to assist the Department of Human Services in resolving the audit findings and in improving accounting procedures and controls. We will be monitoring and reviewing the department's progress in implementing the unresolved prior audit recommendations in addition to the recommendations discussed in this audit report.

We would like to thank the Department of Human Services staff for their cooperation during this audit.

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

January 31, 1989

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CENTRAL OFFICE

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AUDIT PARTICIPATION

The following staff from the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Jack Hirschfeld, CPA	Auditor-In-Charge
Kari Bergum, CPA	Staff Auditor
Sandy Linn	Staff Auditor
Dave Polisen	Staff Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Department of Human Services on Wednesday, February 8, 1989:

Charles Schultz	Deputy Commissioner
Maria Gomez	Assistant Commissioner
Jon Darling	Accounting Director





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I. INTRODUCTION

The Department of Human Services (DHS) is required by the Legislature to develop and administer a public welfare program meeting the needs of Minnesota residents by providing:

- emergency and financial assistance and medical care to low income persons;
- social services to families, children, and adults; and
- rehabilitative and residential services to the mentally ill, mentally retarded, chemically dependent, and physically handicapped.

The department licenses and monitors home care and residential programs for children and handicapped adults. DHS monitors child and vulnerable adult abuse and provides funding for services delivered by community mental health centers. The department supervises programs administered by county welfare departments. DHS directly supervises the regional treatment centers and state nursing homes.

The Commissioner, Sandra Gardebring, is the administrative head of the department. Departmental activities are financed primarily through General Fund appropriations and federal grants. Fiscal year 1988 central office expenditures, excluding the regional treatment centers and state nursing homes, were as follows:

<u>Category</u>	<u>Expenditures</u>
Grants and Aids	\$1,865,339,027
Personal Services	31,134,425
Contractual Services	4,029,100
Travel and Subsistence	1,024,554
Supplies and Equipment	2,441,047
Redistributed Costs	16,109,573
Other Administrative Expenditures	<u>30,004,293</u>
TOTAL	<u>\$1,950,082,019</u>

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. PRIOR AUDIT FINDING NOT RESOLVED: DHS does not process contracts expediently.

On August 7, 1986, we issued an audit report on the Department of Human Services for the three years ended June 30, 1985. The audit report contained three recommendations on processing of contracts. Our current review showed that these issues are not fully resolved.

DHS has continued to incur contractual liabilities before finalizing written agreements. Minn. Stat. Section 16A.15, Subd. 3 requires that funds be encumbered prior to any obligation. Subdivision 3 also provides that, "a claim presented against an appropriation without prior encumbrance may be made valid on investigation, review and approval by the Commissioner of Finance, if the services, materials, or supplies to be paid for were actually furnished in good faith without collusion and without intent to defraud."

The Department of Finance procedures require state agencies to submit letters of explanation for incurring obligations before the encumbrance of funds. The letters must be approved by the Department of Finance before payment. The 16A.15 provision for letters of explanation should be used only in emergency situations and should not become a common operating procedure.

DHS has not improved its processing of contracts. The department permits contractors to begin work before the contract is executed and funds encumbered. Our audit report for the three years ended June 30, 1985, disclosed that DHS sent 111 letters of explanation to the Department of Finance. DHS issued 106 letters of explanation to Finance in fiscal year 1988. DHS continues to incur contractual liabilities before finalizing written agreements and encumbering funds. Letters of explanation continue to be issued as part of the general operating process for contracts.

DHS does not complete evaluations of contractors' performance promptly. The Department of Administration-Policy and Procedure Statement 188, provides that agencies should complete evaluations within 30 days of completion of the contract. The Contract Management Division of the Department of Administration monitors the filing of the agencies' evaluations. The Contract Management Division maintains a list of evaluations that agencies have not filed. As of October 4, 1988, DHS had not submitted evaluations for 38 contracts completed. The list dated back to August 1987. DHS should complete evaluations of contractors' performance within 30 days.

RECOMMENDATION

- DHS should be sure that contractual service agreements are complete and funds encumbered before services begin. Minn. Stat. Section 16A.15, Subd. 3 letters of explanation should only be used in emergency situations.

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2. The Reimbursement Division needs to improve the controls over the cost of care system.

Minn. Stat. Sections 256.50 to 246.55 provides the authority for the DHS Reimbursement Division. The division manages the cost of care system. DHS provides the care for residents at the regional treatment centers and state nursing homes. The centers and homes determine the charges for the residents care. The state nursing homes issue the billings and collect the receipts. The treatment centers forward billing information to the Reimbursement Division. The Reimbursement Division issues the billings and collects the receipts for the treatment centers. The division also maintains the accounts receivable system.

The Reimbursement Division needs to improve the administration of the cost of care system. Problems related to the billings, accounts receivable, and receipts are discussed below.

Late Billings for County Poor Relief - Counties are liable for a maximum of ten percent of the daily support for certain residents at state facilities. The DHS Reimbursement Manual Section VIII-G provides, "the Reimbursement Division will bill the counties for their share of the cost of care provided to these residents at the end of the quarter." However, the Reimbursement Division has not billed counties within a reasonable period. The table below shows the length of time between the end of the quarters and the billing dates.

<u>Amount</u>	<u>Quarter Ending</u>	<u>Date Billed</u>	<u>Number of Days Before Billing Issued</u>
\$1,360,858	9-30-87	January 6, 1988	93 days
\$1,201,582	12-31-87	March 4, 1988	63 days
\$1,187,561	3-31-88	May 27, 1988	57 days
\$1,195,765	6-30-88	September 12, 1988	73 days

A billing period of 30 days would be more reasonable. However, as shown above, the Reimbursement Division sent billings from 57 to 93 days after the end of the quarter instead of 30 days.

Late Postings of Charges to the Accounts Receivable System - The Reimbursement Division maintains the accounts receivable system for the state regional treatment centers. The system includes a control account and subaccounts. Subaccounts have been established for each type of payor, including counties, insurance companies, Medicare, Medical Assistance, and resident's estates. The control account summarizes the details of the subaccounts.

The regional treatment centers are responsible to post resident charges to the subaccounts. Certain charges are not posted to the subaccounts timely. The Reimbursement Division is not properly utilizing the cost of care system because the centers do not record data uniformly. Variances between the control account and the subaccounts are caused by the lack of system uniformity. As of June 30, 1988, a variance of \$1,378,209 existed

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between the control account and the subaccounts. A primary reason for the difference was that some centers do not record charges to the subaccounts until the payments are received. Some examples are as follows.

- The Moose Lake Regional Treatment Center does not record the charges for the cost of care reimbursed by Medicare until the payment is received. Moose Lake records the charges and the receipts to the subaccounts simultaneously. As of June 30, 1988, the Moose Lake Regional Treatment Center showed a negative account balance of about \$180,000. This amount represented funds collected on accounts for which no charges have been recorded. The Willmar Regional Treatment Center also had a negative balance as of June 30, 1988, indicating a similar practice. This practice was initiated by the facilities to reduce the number of adjustments to the accounts. However, the delay in recording the cost of care reduces the ability of the Reimbursement Division to identify billing errors. The Central Office cannot use the cost of care system effectively if data is not properly entered. The centers should be instructed to post information uniformly and timely. This would increase the accuracy and reliability of the accounts receivable system.
- Resident billings for the cost of chemical dependency treatment are not billed to the subaccounts until the resident is discharged. The delay in the recording of charges also reduces the effectiveness of the accounts receivable system.

Lack of Investigating Receipt Variances - Receipts collected by the Reimbursement Division are deposited in the State Treasury, recorded in the statewide accounting system, and posted to the accounts receivable system. At the end of the fiscal year, the Reimbursement Division reconciles the receipts on statewide accounting system records to the receipts posted to the accounts receivable system. For fiscal year 1988, receipts recorded in the statewide accounting system exceeded the receipts posted to the accounts receivable system by about \$44,000. The Reimbursement Division has not resolved the difference. Some reasons for the difference include:

- The Reimbursement Division received a check for \$4,307 in October 1987. While the Reimbursement Division became aware that this check was a repayment of the General Assistance Program, there was no effort to transfer the check to the correct division. The disposition of this check remains unresolved.
- The Reimbursement Division also received and deposited another check for \$965 in October 1987. During the process of posting this check to the accounts receivable system, the Reimbursement Division determined that no accounts receivable record existed for this payment. While the division was aware of the situation, no effort was made to contact the payor in order to resolve the disposition of the check.

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The reconciling of the amount recorded on statewide accounting system records to the amount posted to the accounts receivable system is one method of verifying the accuracy of the posting of receipts. However, if a difference exists, the division should determine the cause for the difference and attempt to correct any errors. The division should also make a timely effort to resolve the disposition of checks received in error.

RECOMMENDATIONS

- DHS should bill the counties timely for their share of the cost of care related to the County Poor Relief Program.
- The Reimbursement Division should instruct the state facilities to record charges uniformly and timely. The division should reconcile the control account and sub-accounts annually to determine if billing errors exist.
- The division should investigate and resolve any variances disclosed in the receipts reconciliation process.

3. Several DHS units do not process receipts properly.

DHS receives and processes most checks in the central cashier unit. However, checks are also received in other locations within the department. These checks are not deposited promptly. Internal controls over certain of these receipts are not adequate. These problems are described below.

Untimely Deposit of Receipts - Minn. Stat. Section 16A.275 requires state agencies to deposit receipts of \$250 or more in the State Treasury daily. Several locations at DHS, including Surveillance and Utilization Review, Staff Development, and Licensing do not submit checks to the central cashier for deposit timely. Checks are not submitted to the cashier until up to two weeks after receipt. For example, the Licensing Division collected about \$334,000 in 1988 for license fees from adult and child care centers. The division collects and holds checks up to a week before they are sent to the central cashier for deposit. The delay of these divisions in depositing checks results in a loss of interest to the state and increases the chance of loss or theft of the receipts.

Lack of Separation of Duties - The same individual at various locations receives the checks, records the payments on the accounts receivable records, and forwards the checks to the central cashier. The lack of separation of duties occurs in Benefits Recovery, Surveillance and Utilization Review, Licensing, and Staff Development. The Surveillance and Review Division collected approximately \$594,000 in 1988. This amount was for recoveries of improper medical assistance payments to individuals and other vendors. The same individual in the Surveillance and Utilization Review Division receives the checks and records the payments on the check listing and the individual account records. This individual also records

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the payments on the accounts receivable system. For proper internal control, these duties should not be performed by the same individual. One individual in control increases the risk of errors or irregularities occurring and not being detected.

Lack of Verification of Deposits - Benefits Recovery and Surveillance and Utilization Review do not reconcile receipts to the statewide accounting system records. The divisions cannot be confident that the checks submitted to the central cashier unit are deposited accurately. A reconciliation process provides assurance that receipts are properly deposited and accurately recorded in the statewide accounting system.

DHS should instruct divisions who issue billings or collect funds to have checks mailed directly to the central cashier. This would ensure that all checks received by the department are deposited promptly. This would also resolve the internal control weaknesses discussed previously. Since the other divisions would not be receiving checks, the problem of separation of duties would be eliminated. The same individual would no longer be responsible for both receiving checks and recording the payments on the accounts receivable records. The central cashiers' receipt register, summarizing the checks deposited daily, could be used by the divisions to record the receipts to the accounts receivable systems. The register could also be used by the divisions to reconcile receipts to the statewide accounting system records.

RECOMMENDATIONS

- DHS should instruct divisions to have all checks mailed directly to the central cashier. This should ensure that:
    - all receipts over \$250 are deposited daily, and
    - a separation of duties exists between the functions of receiving checks and the recording of the payments on the accounts receivable systems.
  - DHS should also require all divisions to reconcile receipts posted to the accounts receivable records to the amounts recorded on the statewide accounting system records.
4. DHS did not provide timely and clear instructions to the counties for the reporting of administrative costs under the State Work Readiness Program and did not repay the counties according to statutory requirements.

The Work Readiness Program provides direct assistance to needy individuals or families who are not eligible to receive general assistance. It also provides administrative funds for employment and training services for registrants seeking employment. DHS reimbursed the counties about

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\$8.5 million during fiscal year 1988 for costs incurred under the Work Readiness Program.

Counties submit monthly Summary of Abstract and Statistical Reports listing the expenses charged to the Work Readiness Program. Included on the report are expenses paid to other agencies who provide employment and training services for program participants. The revised reimbursement rate for employment and training expenses incurred by the counties in fiscal year 1988 was to be 75 percent of costs, with a limit of \$200 per registrant. Minnesota Laws 1987, Chapter 403, Article 3, Section 35, Subd. 6 amended the reimbursement rate, effective July 1, 1987.

DHS issued Instructional Bulletin #87-4C to the counties on August 4, 1987 informing them of the revised reimbursement rate and provided a new form for reporting administrative costs. However, the bulletin did not provide clear instructions and did not allow for any advance preparation by the counties to determine how to obtain the required information. Before July 1987, the counties were required to report only the number of new registrants. With the issuance of the new bulletin in August 1987, the counties were required to calculate and report the administrative costs for each new registrant. Most contract agencies and counties had not developed a system that would generate the required information. Consequently most counties had a difficult time obtaining and reporting the information. Because of the reporting problems, DHS could not verify the actual administrative costs for employment and training services for the counties. Since DHS was not able to calculate the administrative costs for the counties, DHS reimbursed the counties the full \$200 for each registrant. Reimbursing the counties the full \$200 per registrant did not comply with the statutory requirements and caused incorrect payments.

In an attempt to clarify the reporting process DHS issued Instructional Bulletin #87-32J on November 23, 1987, providing new procedures and a revised form for completing the required information. However, many counties continued to have problems reporting the required information. Because of the reporting problems and because the year was almost half over, DHS decided to continue reimbursing the counties the full \$200 per registrant for the remainder of the fiscal year without verifying county expenditures. This decision resulted in the continued overpayment of administrative aid to counties. No additional effort was made by DHS to require the counties to report the necessary information.

Approximately 58 percent of the 50 counties reviewed for July 1988 incurred administrative costs amounting to less than \$200 per registrant. While we could not determine the amount of over-reimbursement to the counties during fiscal year 1988, the results of our testing of reports submitted for July 1988 indicate that a large number of counties were overpaid. On July 15, 1988, DHS issued an instructional bulletin providing a new reporting form and simplified reporting procedures. These new reporting procedures should allow DHS to review the county's administrative costs in order to accurately determine the amount of reimbursement.

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RECOMMENDATION

- DHS should reimburse the counties for the cost of employment and training services at 75 percent of costs not exceeding \$200 per registrant.
5. An unauthorized advance payment was made to the counties under the State Child Care Program, and quarterly payments were not based on actual expenditures.

The Child Care Program subsidizes child care to enable eligible families to seek or retain employment and to participate in educational programs necessary to find employment. The Minnesota Department of Jobs and Training administered the Child Care Program until fiscal year 1988, when it was transferred to the Department of Human Services. The fiscal year 1988 appropriation of \$12.5 million for the Child Care Program was allocated to various program components, including set aside (\$6,504,472), basic sliding fee (\$6,004,128), and special allocations (\$471,700). Depending on the program component, funds were provided to the counties based on the AFDC caseload and/or the number of families below poverty level.

Minn. Stat. Section 268.91, Subd. 3 states that the commissioner may certify an advance for the first quarter of the fiscal year, and that later payments must be based on actual expenditures as reported in the quarterly financial and program activity reports. The state appropriation laws also authorize DHS to carry forward unexpended funds from 1988 to 1989. DHS elected to make an advance payment to the counties during fiscal year 1988 for the set aside and basic sliding fee components of the Child Care Program equal to one-fourth of their annual allocation. A second advance of \$1,483,800, which was not authorized in the statute, was made on December 21, 1987 for the basic sliding fee program area. Because of this second advance, total payments to the counties for the basic sliding fee area exceeded the counties' entitlement by approximately \$50,000 for fiscal year 1988. DHS stated that this amount will be reduced from the 1989 allocation to the counties. Although DHS is authorized to carry forward unexpended funds in this biennium, DHS should not advance funds after the first quarter.

Subsequent quarterly payments were not based on actual expenditures. The formula used by DHS to calculate the quarterly payments was designed to maintain a cash balance at the county level until the end of the fiscal year. Since the advance was carried forward until the last quarter, many counties had significant cash balances on hand during much of the year. Also, payments to the counties for the set aside and special allocations components of the Child Care Program exceeded their entitlements by \$670,000 for fiscal year 1988. Again, DHS indicated that these funds will be carried forward in 1989 and reduced from the counties' 1989 allocation. However, a more beneficial approach for the state would be a process to reduce the fund balance at the county level by the end of each year. Payment would not exceed the counties' entitlements and the state would not lose interest on the overpaid amounts.



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RECOMMENDATION

- DHS should advance funds to the counties for the first quarter of the fiscal year, and base later payments on actual expenditures.
6. PRIOR AUDIT FINDING PARTIALLY RESOLVED: DHS is not monitoring the resolution of cross-cutting issues reported in subrecipient Single Audits.

The Single Audit Act of 1984 provides for a single audit of local units of government or other subrecipients receiving over \$25,000 of federal financial assistance annually. Section 7502(e) of the Act requires each state to:

Review such audit and ensure that prompt and appropriate corrective action is taken on instances of material non-compliance with applicable laws and regulations with respect to Federal financial assistance provided to the subrecipient by the State or local government.

The U. S. Office of Management and Budget Circular A-128, Part 9(c) requires that states verify this corrective action within six months after receipt of the audit report.

The Minnesota Department of Finance has assigned DHS to monitor the resolution of audit findings and cross-cutting issues for the 87 counties and 12 other subrecipients, including regional development commissions and local social service organizations. DHS has resolved the subrecipient audit findings directly related to the programs administered by the department. However, DHS has not implemented a process to resolve cross-cutting issues for the subrecipients assigned by the Department of Finance. DHS does not agree that it should resolve cross-cutting issues. The department does not believe that it has the proper state statutory authority to resolve these issues with local government units. Consequently, DHS has not taken any action to resolve the cross-cutting issues shown in the assigned subrecipient Single Audits.

RECOMMENDATIONS

- DHS should resolve the issue of authority with the Department of Finance.
- DHS should work with the Department of Finance to establish a process to resolve cross-cutting issues for the respective subrecipients.

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7. DHS did not obtain the proper state approval to expend incentive funds earned under the Aid to Families With Dependent Children Program.

The Aid to Families With Dependent Children (AFDC) Program provides cash payments to needy families to cover costs of food, shelter, and clothing. Federal funding for the AFDC Program in Minnesota is determined by the federal Medicaid reimbursement rate. 45 CFR Paragraph 205.43 provides for an increase in federal funds in addition to the federal participation amount for those states that have a low error rate in the AFDC Program. Low error rates result when the percentage of overpayments and underpayments for incorrect eligibility determinations and denial are less than the four percent error rate established by the U.S. Social Security Administration. DHS was awarded \$309,841 in May 1987 as an incentive payment for low error rates for the period October 1982 to March 1983.

Minn. Stat. Section 16A.36 Subd. 1 requires that federal assistance money received by the state from the federal government must be used only for the purpose for which the money is provided. The state appropriation laws provide the funding for the state share of the AFDC program. Any additional funding by the federal grantor agency would reduce the amount of state funds provided by the General Fund. However, DHS did not use the additional funding to reduce the state share of the program costs, but instead transferred approximately \$260,000 to the Food Stamp Employment and Training Program, with the remainder set aside for another AFDC program activity. DHS should have cancelled the \$309,841 to the General Fund for reduction of the state's share of the AFDC Program costs. Additional state approval would have been needed to use the incentive funds for other purposes. Minn. Stat. Section 3.3005, Subd. 5 states that federal money which was not anticipated but becomes available may not be allotted until the Commissioner of Finance has first submitted the request to the members of the Legislative Advisory Commission for their review and recommendation. However, DHS did not submit a request to the Department of Finance and did not receive approval to allot these funds for other program purposes. We do not believe that DHS has the authority to unilaterally determine the disposition of federal incentive funds.

RECOMMENDATIONS

- DHS should transfer the remaining balance of the incentive payment to the General Fund.
- Incentive funds received to reduce the state share of program costs should be cancelled to the General Fund unless state approval is obtained to use these funds for other purposes.

8. AFDC special needs payments to counties were not calculated according to the agency rules.

Special needs is an activity within the AFDC Program which is also subsidized by state and federal funds. Funds are subgranted to counties for

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reimbursements to individuals for costs related to preparation for employment, maintaining a habitable shelter, basic household furnishings, and medically-prescribed diets. Approximately \$2.1 million in state and federal funds were subgranted to the counties during fiscal year 1988. The amount paid to each county is to be based on a formula established in agency rules for the Department of Human Services.

Minnesota Agency Rules 9500.2800, Subp. 3 requires quarterly allocations of special needs funds to the counties. Allocations are based on each county's percentage of the state AFDC caseload statistics from the prior year. Allocations to the counties that are not spent at the end of each quarter are to be reallocated to counties that exceeded their allocation. DHS did not calculate special needs payments according to the agency rules. As a result, incorrect payment were made to the counties.

Special needs payments to the counties for the last three quarters of fiscal year 1988 were based on county expenditures instead of the quarterly allocation amount derived by the formula in the agency rules. The attempt by DHS to match special needs payments to county expenditures resulted in payments exceeding those authorized by the agency rules. For instance, out of 30 counties tested, 17 counties were overpaid by a total of approximately \$38,000. Because some counties were overpaid, less funds were available for reallocation to counties that had overspent their allocation.

DHS did not reallocate unspent funds correctly. At the end of the first quarter of fiscal year 1988, over \$14,000 in allocated funds were not spent by the counties. This amount should have been reallocated to the counties that overspent their allocation. However, DHS only reallocated the net difference between the amount overspent or underspent by the counties, or approximately \$1,100. An additional \$13,000 could have been reallocated to counties that had overspent their allocation.

Although the agency rules provide allocations to the counties based on AFDC caseload statistics, DHS believes that the current process of reimbursement of actual costs would be a more equitable method of payment. However, the DHS payment method has caused payments to be made that are different from the formula established in the agency rules. Therefore, DHS should revise the agency rules to agree with the current method of payments or review the method of distributing funds to comply with the agency rules.

RECOMMENDATIONS

- DHS should determine the amount of special needs payments to the counties based on the formula in the agency rules. If DHS determines that the payment process should be changed, the agency rules should be changed to reflect the current policy.
- DHS should determine if adjustment to the counties' 1988 allocations are necessary.

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9. The Department of Human Services is not monitoring county expenditures charged to the federal Social Services Block Grant (CFDA #13.667).

The Department of Human Services (DHS) received approximately \$47 million in fiscal year 1988 from the U.S. Department of Health and Human Services for the Social Services Block Grant. Funds are granted to counties to provide social services for children and adults.

Minn. Stat. Section 256E.08, Subd. 8 requires counties to submit quarterly reports of social services expenditures to DHS. Counties are to submit the following reports:

- Purchase of Services Report - listing the costs of purchased services; and
- Social Services Time Report - listing the total salary costs charged to the program.

DHS requires counties to submit the Purchase of Services Report within 15 days after the end of the quarter. These reports are reviewed for accuracy prior to the next monthly payment. However, the time reports are filed without review by DHS staff. In addition, time reports are not submitted by all counties, and some reports were incomplete. Minn. Stat. Section 256E.08, Subd. 16 requires that any money unused by a county be reallocated to other counties which have expended their allotment.

DHS has not reviewed the counties total expenditures made for the Social Services Program; therefore, no funds have been reallocated. DHS indicated that the counties generally spend more for social services than funds originally allotted. DHS should establish a more formal method to check the total funds expended by the counties to ensure that funds are not available for reallocation. Documentation should be maintained to support the review and determination. The Purchase of Services and Time Reports or other expenditure documents could be used for this analysis.

RECOMMENDATION

- DHS should review county social services expenditures from block grant allocations to determine if any counties have excess funds. Any available funds should be reallocated to counties which have expended their allotment.

10. DHS does not have adequate reporting procedures to ensure that all available funding for the Title IV-E Foster Care Program (CFDA #13.658) is received timely.

The U.S. Department of Health and Human Services awarded DHS \$10.7 million in fiscal year 1988 for the Foster Care Program. The funds were used for state and local administrative and training costs, and for maintenance assistance for foster care services. Counties determine program

DEPARTMENT OF HUMAN SERVICES  
CENTRAL OFFICE

participant eligibility and process the appropriate payments. Expenditures incurred by the counties are reimbursed by DHS based on the federal matching rate.

DHS requires counties to submit the following Foster Care Program and Social Services Expenditure Reports each quarter:

Social Service Time Series Random Moments Report (SSTS) - Records social service payroll time charged to various programs;

Social Service Fund Report (2556) - Summarizes the social services expenditures; and

Title IV-E 2570 - Lists expenditures incurred for maintenance and case management, including statistical information.

DHS reviews these reports for eligibility, licensure, reimbursement rates, and mathematical accuracy and reasonableness. DHS must then submit a report requesting reimbursement for the federal share of program expenditures within 30 days after the end of each quarter. The amount provided in the federal reimbursement report is based on the information included in the county reports. In order for DHS to claim the maximum reimbursement amount, all county reports must be received by DHS prior to the preparation of the federal report.

DHS does not receive all county reports prior to the preparation of the federal reimbursement report. DHS has issued bulletins to counties identifying the reporting dates, sent letters to counties which submit late reports, and has issued commendations to counties which submit timely reports. However, these procedures have not been effective. Counties continue to submit reports late, resulting in less federal grant award amounts than would have been received had all county reports been received on time. For instance, the failure of counties to submit certain reports within the time limit for the June 30, 1988 quarter resulted in a drawdown amount \$240,942 less than the maximum amount possible. Three Social Service Fund Reports and 12 Title IV-E expenditure reports were not submitted by the counties for this period. Since the grant period has ended, DHS will not be reimbursed for the the additional amount.

DHS allocates the grant award to counties based on the amount of expenditures and caseload statistics. All counties, including those who did not submit their expenditure report on time, receive an allocation. This process penalizes those counties whose reports were submitted timely. If DHS is to enforce the counties reporting requirements, the allocation process should not penalize those counties that submitted timely reports, or reward those counties who did not submit their reports.

RECOMMENDATIONS

- DHS should develop adequate county reporting procedures to ensure that all available funding for the Title IV-E Foster Care Program is received timely.

DEPARTMENT OF HUMAN SERVICES  
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- DHS should obtain statutory authority or develop agency rules allowing DHS to penalize counties or withhold funds from those counties that submit late reports.

11. DHS did not disburse Foster Care Program (CFDA #13.658) training funds to the counties.

Title IV-E of the Social Security Act provides for federal participation in training costs incurred for the Federal Foster Care Program. During federal fiscal year 1988, counties conducted training sessions based on instructional bulletins issued by DHS stating that the counties would be reimbursed at the federal rate of 75 percent of costs. Counties submitted quarterly expenditure reports to DHS listing the training costs incurred by the counties. Training costs were approved as part of the federal grant.

In federal fiscal year 1988, DHS did not drawdown funds totaling \$362,000 authorized by the grant award. Therefore, DHS did not reimburse the counties for training costs. DHS staff stated that the grant awards were not significant in relation to the total program grant awards, and that they were more concerned with effectively administering the other portions of the federal program. DHS is responsible for administering all phases of the Foster Care Program. Part of this responsibility includes disbursing available funds to the counties according to the terms stated in the instructional bulletins. Because DHS did not drawdown and disburse the funds, counties were forced to fund all of the training costs.

RECOMMENDATION

- DHS should drawdown the available federal funds and reimburse the counties for training costs incurred for the Foster Care Program during federal fiscal year 1988. In the future DHS should reimburse the counties quarterly, similar to other areas of the program.

12. DHS did not adequately verify the eligibility of recipients for the AIDS Drug Reimbursement Program (CFDA #13.146).

DHS was awarded approximately \$169,000 in fiscal year 1988 by the U.S. Department of Health and Human Services to administer the AIDS Drug Reimbursement Program. This federal grant was awarded to cover the cost of drugs determined by the U.S. Food and Drug Administration to prolong the life of persons with acquired immunodeficiency syndrome (AIDS). DHS established contracts with four pharmacies to dispense these drugs to eligible recipients. Eligibility of the current 27 recipients was determined by DHS staff. Eligibility determination is not normally determined by the department.

DHS did not adequately verify the eligibility of individuals participating in the program. To be eligible, recipients must be low-income individuals

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not covered by the state Medicaid Program or by another third-party payor, such as an insurance company (Public Law 100-71). DHS did not verify the accuracy of reported income, whether the participant was covered by the state Medicaid Program, or determine whether the participant was covered by a third-party payor. These issues are discussed further below.

Low-Income Individuals - DHS has defined low-income individuals for fiscal year 1988 as those who earned less than \$10,200 in 1987 and anticipated similar earnings in 1988. Individuals that applied for aid under this program either submitted a report listing their income or provided this information to DHS staff over the telephone. No effort was made by DHS staff to verify their annual income. Verification of their annual income could be done by reviewing the applicants' check stubs, which is done for the Medical Assistance Program, or by reviewing their federal tax returns. Without verifying income, DHS cannot be certain that only eligible individuals are receiving aid under this program.

Not Covered By the Medicaid Program - No verification was completed by DHS staff to determine if the applicants were covered by Medicaid. On-line inquiries in the Medical Assistance computer subsystem could be made by program staff in order to verify whether the applicant is eligible for Medicaid. This process would help to prevent individuals from receiving aid from both the AIDS Drug Reimbursement Program and Medicaid.

Not Covered by Another Third-Party Payor - DHS also did not attempt to determine if the individuals were covered by other third-party payors. While this information may be more difficult to collect, it would be available from the individual's doctor, pharmacy, or employer if applicable. An attempt should be made by DHS to obtain this information in order to avoid reimbursement by two different sources.

Verification of the above information should be a routine procedure upon receipt of applications and before payment is made.

RECOMMENDATION

- DHS should verify that all applicants for this program meet the eligibility requirements.

13. DHS payments to the counties for Permanency Planning activities funded by the Child Welfare Services Program (CFDA #13.645) are not based on the county's immediate cash needs.

Permanency Planning is an activity within the Child Welfare Program designed to help children live in families that offer continuity of relationship with nurturing parents or caretakers and provide the opportunity to develop lifetime relationships. DHS's payments to the counties for Permanency Planning activities during fiscal year 1988 amounted to \$4.4 million. Funding was provided by the Child Welfare Services federal grant (\$1 million) and by a state appropriation (\$3.4 million).

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Minn. Stat. Section 256F.05 states that payments to the counties for Permanency Planning activities be made in four installments per calendar year occurring on the first day of each quarter. During fiscal year 1988, DHS complied with the statutory requirement and made payments out of state and federal funds to the counties on the first day of each quarter. These payments provided advance funding for expenditures by the counties that occurred during the following three months. The state law conflicts with federal guidelines governing cash management. U.S. Treasury Circular 1075 requires that payment of federal funds be limited to the immediate cash needs of the recipient. Because these payments are not based on the county's immediate cash needs but provide funding for expenditures occurring up to three months after receipt of the payments, Permanency Planning payments funded by the federal grant do not comply with U.S. Treasury Circular 1075.

DHS staff will be introducing a statutory change in the next legislative session to allow the payments for the Permanency Planning Program to be on a reimbursement basis.

RECOMMENDATION

- DHS should seek to amend the statutes to comply with the requirements of U.S. Treasury Circular 1075. Payments to counties for Permanency Planning activities from federal funds should be based on the counties' immediate cash needs.





STATE OF MINNESOTA  
DEPARTMENT OF HUMAN SERVICES  
Human Services Building  
444 Lafayette Road  
St. Paul, Minnesota 55155-38 15

March 15, 1989

Mr. James R. Nobles  
Legislative Auditor  
1st Floor  
Veterans Service Building  
St. Paul, MN 55155

Dear Mr. Nobles:

The Department of Human Services is herewith submitting its responses to the recommendations included in your draft management letter pertaining to the financial and compliance audit of this agency for the three years ended June 30, 1988. It is our understanding that these responses will be published with your final management letter report. Because of the limited time available to prepare our responses, several of them have been abbreviated.

The Department of Human Services has a policy concerning the resolution of audit findings which requires regular follow-up checks to evaluate progress being made towards resolution. Progress is monitored until full implementation is achieved.

Sincerely,

A handwritten signature in dark ink, appearing to read "C. Schultz", with a long, sweeping underline that extends to the right.

CHARLES C. SCHULTZ  
Deputy Commissioner

cc: David Doth  
Renee Redmer  
Jon Darling  
Thomas Malueg  
Julie Brunner  
Maria Gomez  
John Petraborg  
Robert York

DHS Management Letter Responses  
Three Years Ended June 30, 1988

FINDING #1

PRIOR AUDIT FINDING NOT RESOLVED: DHS does not process contracts expediently.

RECOMMENDATION #1-1

DHS should be sure that contractual service agreements are complete and funds encumbered before services begin. Minn. Stat. Section 16A.15, Subd. 3 letters of explanation should only be used in emergency situations.

RESPONSE #1-1

In November, 1987 DHS consolidated all contract review and processing functions into the Appeals and Contracts Division. A contracts manual was developed, a contract liaison was designed for each program division and residential facility, and training on contracting procedures was provided to all liaisons. A computerized tracking system has now been developed to monitor the status of all departmental contracts. New guidelines have been issued which establish specific conditions that must be met before 16A.15 letters will be approved. The Appeals and Contracts Division will continue to emphasize the importance of not incurring contractual liabilities before finalizing written contracts at all contract liaison training sessions.

Persons Responsible: Rae Bly, Lisa Brill  
Completion Date: On-going

FINDING #2

The Reimbursement Division needs to improve the controls over the cost of care system.

RECOMMENDATION #2-1

DHS should bill the counties timely for their share of the cost of care related to the County Poor Relief Program.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

RESPONSE #2-1

The delay in billing counties for their share of the County Poor Relief Program was primarily the result of staffing problems experienced by the Reimbursement Division during FY 88. We are confident that personnel now assigned to these tasks will be able to remain up to date with Poor Relief claims processing duties. There have been no inordinate delays in billing during the course of FY 89.

Persons Responsible: David Wheeler, Harley Will  
Completion Date: On-going

RECOMMENDATION #2-2

The Reimbursement Division should instruct the state facilities to record charges uniformly and timely. The division should reconcile the control account and sub-accounts annually to determine if billing errors exist.

RESPONSE #2-2

DHS disagrees with this recommendation. We are following procedures that were established as the result of a previous audit, in cooperation with Legislative Audit Commission staff.

All charges are posted to the patient's control account. DHS contends the patient control account is the subsidiary ledger, not the payee sub-accounts as contended in the audit. The total of the patient control accounts reconciles to the division's receivable control account.

Within each patient's control account are a series of sub-accounts by potential payers. DHS purposely, and as previously agreed to, allows the difference between the payer's sub-accounts and patient account to serve as a management follow-up tool. The difference is accounted for in a separate sub-account (Z account).

We will retain our present procedures.

Person Responsible: Not Applicable  
Completion Date: Not Applicable

DHS Management Letter Responses  
Three Years Ended June 30, 1988

RECOMMENDATION #2-3

The division should investigate and resolve any variances disclosed in the receipts reconciliation process.

RESPONSE #2-3

We are requiring that a monthly reconciliation be performed by responsible individuals and that it be reviewed by the supervisor to insure that trial balance postings and SWA reports are in agreement. Changes in the operating structure of the regional treatment centers into enterprise funds and general fund activities has resulted in a difficult reconciliation process with several accounting entities, multiple payers and several divisions within the Department handling the transactions. We are making every effort to keep the reconciliation process current.

Persons Responsible: Rose Keller, Harley Will  
Completion Date: On-going

FINDING #3

Several DHS units do not process receipts properly.

RECOMMENDATION #3-1

DHS should instruct divisions to have all checks mailed directly to the central cashier. This should ensure that:

- all receipts over \$250 are deposited daily, and
- a separation of duties exists between the functions of receiving checks and the recording of the payments on the accounts receivable systems.

RESPONSE #3-1

On July 27, 1988 and January 31, 1989 the Financial Management Division instructed all DHS divisions to direct their payees to remit payments directly to the cashier. In addition, Financial Management Division staff are meeting with staff of revenue generating divisions to resolve receipting procedures and problems.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

There are instances where the checks must be reviewed by the collecting division before they are deposited and cashed. These instances are for small volume specific types of collections. Legal action may otherwise be hampered. Log-in control procedures and assignment of separate staff responsibilities will be used as control procedures in these cases. The procedures as agreed to between the Financial Management Division and the collecting division will be documented and on file in the Financial Management Division.

Person Responsible: Mary Altstadt, Phil Ohman, Cheryl Nyhus,  
Jan Taylor, Russell Goodman, Jim Campbell  
Completion Date: July 1, 1989

RECOMMENDATION #3-2

DHS should also require all divisions to reconcile receipts posted to the accounts receivable records to the amounts recorded on the statewide accounting system records.

RESPONSE #3-2

The Financial Management Division reconciles total receipts received and processed to Statewide Accounting. The Financial Management Division provides each revenue generating division with daily receipts registers of deposits made to their accounts. Each revenue generating division will be instructed to either retain documentation on actual disposition of each receipts register or reconcile to monthly summary SWA reports.

Persons Responsible: Mary Altstadt, Phil Ohman, Cheryl Nyhus,  
Jan Taylor, Russell Goodman, Jim Campbell  
Completion Date: July 1, 1989

FINDING #4

DHS did not provide timely and clear instructions to the counties for the reporting of administrative costs under the State Work Readiness Program and did not repay the counties according to statutory requirements.

RECOMMENDATION #4-1

DHS should reimburse the counties for the cost of employment and training services at 75 percent of costs not exceeding \$200 per registrant.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

RESPONSE #4-1

DHS is already in compliance with this recommendation. Reporting procedures were revised for fiscal year 1989 in Instructional Bulletin #88-32F. The revised procedure eliminates payment to counties based on registrant count and replaces it with 75 percent reimbursement of county expenditures, capped at a maximum of \$200 per registrant. The new procedure has resulted in significantly improved county reporting. Welfare Reform legislation has also been introduced this session which includes clarification of reimbursement for Work Readiness services and administration.

Persons Responsible: Bruce Lien, Paul Timm-Brock, Mike Sirovy  
Completion Date: July 15, 1988

FINDING #5

An unauthorized advance payment was made to the counties under the State Child Care Program, and quarterly payments were not based on actual expenditures.

RECOMMENDATION #5-1

DHS should advance funds to the counties for the first quarter of the fiscal year, and base later payments on actual expenditures.

RESPONSE #5-1

The Child Care Fund was transferred to DHS in FY 1988. New legislation created five separate programs with complicated state and federal funding sources. DHS was finally able to release a bulletin with reporting forms on December 22, 1987.

Minn. Stat. Section 256H.09, Subd. 2 states the commissioner shall make payments to each county in quarterly installments. A second quarter payment was made on December 21, 1988. Because quarterly reports were not received until the following quarter, DHS was unable to base the second quarterly payment on actual expenditures. However, all subsequent payments were based on actual expenditures and county spending patterns.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

The second quarter's payments to counties seems fully justified given legislative intent to disburse these funds for these activities. On the other hand, for DHS to have withheld this money because reporting specifications were incomplete would have been an unnecessary hardship on counties. Moreover, the overwhelming majority of the counties expended not only their advances but their full allocations. DHS has proposed legislation (H.F. 854 and S.F. 789) to simplify the Child Care Fund and clarify the payment process.

Persons Responsible: Vicki Kunerth, Dave Piechowski  
Completion Date: Bills are already before the legislature

FINDING #6

PRIOR AUDIT FINDING PARTIALLY RESOLVED: DHS is not monitoring the resolution of cross-cutting issues reported in subrecipient Single Audits.

RECOMMENDATIONS

- #6-1 DHS should resolve the issue of authority with the Department of Finance.
- #6-2 DHS should work with the Department of Finance to establish a process to resolve cross-cutting issues for the respective subrecipients.

COMBINED RESPONSE #'s 6-1 AND 6-2

The audit findings point out the fact DHS has resolved the subrecipient audit findings directly related to the programs administered by the Department. DHS expended considerable effort and diverted resources from other purposes to accomplish this goal. But, accomplishment of this goal was possible because DHS has a historical supervisory relationship with county social service agencies well founded in state law.

DHS has no authority founded in state law over non-human services county government units (such as the sheriff's office, the county treasurer, the county road and bridge unit, etc.) where cross-cutting issues will lead. Efforts by any agency to resolve these issues without clearly defined authority will be ignored or challenged successfully. Even if the authority problems can be solved there will still be a serious resource problem.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

DHS will commit to working with the State Department of Finance to attempt to resolve the authority issue. DHS will also commit to working with the State Department of Finance to establish a process for resolving cross-cutting issues, although we feel that other state agencies (for example, the State Department of Transportation due to their relationship with county road and bridge departments) will have to be involved in this development process. DHS also feels that the resources issue will have to be addressed at some level before the cross-cutting issue for counties can be successfully resolved.

Person Responsible: Jon Darling  
Completion Date: June 30, 1989

FINDING #7

DHS did not obtain the proper state approval to expend incentive funds earned under the Aid to Families with Dependent Children Program.

RECOMMENDATION #7-1

DHS should transfer the remaining balance of the incentive payment to the General Fund.

RESPONSE #7-1

Per consultation with a representative of the Region V Office of Family Assistance at the time the incentive grant was received, DHS believes that the incentive grant did not have any restrictions as to how it should be used. The grant was used to prevent or reduce the risk of sanctions under the AFDC and Food Stamp programs by funding non-complement positions in the area of quality control/corrective action and providing funds for the Food Stamp Employment and Training program (FSET). DHS believes that since receipt of the AFDC incentive grant was a result of the state's efforts to reduce error rates, that a justifiable use of the grant would be to continue efforts to reduce or avoid sanctions.

DHS is willing to request whatever authorizations or approvals that are needed to allow the remainder of the AFDC incentive grant to continue to be used to prevent and/or reduce the risk of sanctions under the AFDC and Food Stamp programs by funding the non-complement positions in quality control/corrective action and the Food Stamp Employment and Training Program, as needed.

Person Responsible: John Petraborg  
Completion Date: March 13, 1989



DHS Management Letter Responses  
Three Years Ended June 30, 1988

RECOMMENDATION #7-2

Incentive funds received to reduce the state share of program costs should be cancelled to the General Fund unless state approval is obtained to use these funds for other purposes.

RESPONSE #7-2

DHS will ensure it has received the proper approval if it intends to use incentive funds received from the federal government for a purpose other than to reduce the state share of AFDC program costs.

Person Responsible: John Petraborg  
Completion Date: On-going

FINDING #8

AFDC special needs payments to counties were not calculated according to the agency rules.

RECOMMENDATION #8-1

DHS should determine the amount of special needs payments to the counties based on the formula in the agency rules. If DHS determines that the payment process should be changed, the agency rules should be changed to reflect the current policy.

RESPONSE #8-1

DHS will reallocate the amounts underspent by counties in substantial compliance with the AFDC rule until the rule can be revised to assure full compliance. The quarterly allocation of special needs for the quarter ending March, 1989 and thereafter will be done as follows:

When the allocation statewide is underspent, the amount overspent by counties will be absorbed before the remaining amounts are reallocated to all the counties, using caseload as the basis. The rule doesn't presently address this procedure but this will be corrected when the rule is revised.

When the allocation statewide is overspent, the remaining allocation of counties that underspent will be reallocated only to counties that have overspent their quarterly allocation in proportion to their overexpenditures. This procedure complies with the current agency rule.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

Person Responsible: Mike Sirovy  
Completion Date: Rule Revision - Late 1989

RECOMMENDATION #8-2

DHS should determine if adjustments to the counties' 1988 allocations are necessary.

RESPONSE #8-2

Since the audit, we have determined that the impact of such an adjustment is quite unsubstantial - only \$1,796.56 among all counties. We believe it would not be worthwhile to make that adjustment.

Persons Responsible: Mike Sirovy, Bruce Lien  
Completion Date: Not applicable

FINDING #9

The Department of Human Services is not monitoring county expenditures charged to the federal Social Services Block Grant (CFDA #13.667).

RECOMMENDATION #9-1

DHS should review county social services expenditures from block grant allocations to determine if any counties have excess funds. Any available funds should be reallocated to counties which have expended their allotment.

RESPONSE #9-1

DHS agrees that Title XX county reports should be revised to provide data that can be reviewed for full spending.

DHS is confident counties are fully spending their allocations. In calendar year 1987, county social service expenditures were nearly \$360 million. Subtracting all state, miscellaneous and federal revenue other than Title XX, county expenditures still exceeded \$236 million, which is more than five times the amount of Title XX funds disbursed to counties.

With the expected addition of a new position, DHS intends to develop new reporting procedures and establish a formal review policy to verify that all counties fully spend their Title XX allocation.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

Persons Responsible: John Sellen, Gary Koehler  
Completion Date: December 31, 1989

FINDING #10

DHS does not have adequate reporting procedures to ensure that all available funding for the Title IV-E Foster Care Program (CFDA #13.658) is received timely.

RECOMMENDATION #10-1

DHS should develop adequate county reporting procedures to ensure that all available funding for the Title IV-E Foster Care Program is received timely.

RESPONSE #10-1

DHS cannot file claims for federal reimbursements for counties that do not file their reports on time. DHS cannot force counties to comply with current reporting requirements. DHS has established a log-in procedure for all major monthly and quarterly reports, including the three Title IV-E reports referred to in the audit finding. Counties that haven't submitted reports on time are notified and funds are delayed.

We disagree with the conclusion reached in the audit finding that the money is lost because the grant period has ended. Claims submitted late are included in the report for the quarter during which they were received. Normally, a future federal grant award includes the funds for the late reports (prior period adjustments). The federal program agency, however, has historically failed to fully fund the Title IV-E program, so this additional funding is often substantially delayed.

DHS is seeking legislative authority to require counties to comply with its reporting requirements. DHS will also study the possibility of amending the Title IV-E administrative distribution rule.

Persons Responsible: John Sellen, Marian Eisner  
Completion Date: November 1, 1989

DHS Management Letter Responses  
Three Years Ended June 30, 1988

RECOMMENDATION #10-2

DHS should obtain statutory authority or develop agency rules allowing DHS to penalize counties or withhold funds from those counties that submit late reports.

RESPONSE #10-2

DHS has legislation pending (S.F. 787 and H.F. 965) that will establish and standardize county financial reporting deadlines (see Response #10-1).

Persons Responsible: Jon Darling, Jane Delage, John Sellen  
Completion Date: Bills are already before the legislature

FINDING #11

DHS did not disburse Foster Care Program (CFDA #13.658) training funds to the counties.

RECOMMENDATION #11-1

DHS should draw down the available federal funds and reimburse the counties for training costs incurred for the Foster Care Program during federal fiscal year 1988. In the future DHS should reimburse the counties quarterly, similar to other areas of the program.

RESPONSE #11-1

DHS agrees in principle with distributing these funds to counties as soon as practical. However, the recommendation does not take into account a number of practical obstacles to doing so.

First, these grant awards are chronically short. Second, county agencies are permitted by rule to revise the reports used to generate the claim up to one year after they were originally due. Such amendments materially alter not only that county's reimbursement, but the other 86 counties' reimbursement as well. Third, each computer run of the distribution formula is time-consuming and labor-intensive in an environment short on staff.

Accordingly, DHS has disbursed these funds only after the one-year deadline has expired, when a definitive distribution can be calculated. We will, however, study the feasibility of disbursing these funds earlier if the problems involved can be solved.

DHS Management Letter Responses  
Three Years Ended June 30, 1988

Persons Responsible: Dave Piechowski, Marian Eisner  
Completion Date: December 31, 1989

FINDING #12

DHS did not adequately verify the eligibility of recipients for the AIDS Drug Reimbursement Program (CFDA #13.146).

RECOMMENDATION #12-1

DHS should verify that all applicants for this program meet the eligibility requirements.

RESPONSE #12-1

The following measures have already been taken to address the concerns raised in this report.

1. Applicants for this program are requested to submit a copy of their tax forms, W-2 statements, or pay check stubs. In addition, they are required to sign the application certifying that all the information that has been provided is accurate and correct.
2. All invoices for services covered under these funds are reviewed prior to payment to insure that individuals for whom AZT is being provided were not eligible for Medical Assistance or General Assistance Medical Care on the date of service.
3. Patients are asked whether or not they have any third party insurance. This question is listed on the application and must be checked yes or no by the patient. The patient is then required to sign this application certifying that the information provided on the application is true and correct.

Referrals for the AZT reimbursement program come primarily from fewer than ten different physicians. These physicians are aware that these funds are only for persons who have no other insurance or way to pay for AZT. The referral in and of itself demonstrates that the physician has determined that there is a need for AZT but that the patient has no way to obtain it.

Finally, AZT is dispensed through only two pharmacies. These pharmacies have, as a term of their contract with DHS, that they will seek all other third party insurance for payment of AZT expenses. In

DHS Management Letter Responses  
Three Years Ended June 30, 1988

addition, the term of their contracts prohibit them from billing for services to be reimbursed by these funds, for clients who are on MA or GAMC. Thus, in the unlikely event that an erroneous payment were made, DHS could recover it fully.

Persons Responsible: Ron Hook  
Completion Date: March 1, 1989

FINDING #13

DHS payments to the counties for Permanency Planning activities funded by the Child Welfare Services Program (CFDA #13.645) are not based on the counties' immediate cash needs.

RECOMMENDATION #13-1

DHS should seek to amend the statutes to comply with the requirements of U.S. Treasury Circular 1075. Payments to counties for Permanency Planning activities from federal funds should be based on the counties' immediate cash needs.

RESPONSE #13-1

The Permanency Planning Program is in full compliance with the requirements of U.S. Treasury Circular 1075. In most cases, counties have already spent their funding before receiving an advance. Therefore, payments made to counties are based on immediate cash needs. In addition, DHS disburses the state appropriation first, allowing Title IV-B funds to be held back in the event that county underspending occurs.

DHS has proposed legislation (H.F. 784) which will require that federal funds comprise the final quarterly installment paid to county agencies. This payment will be made mid-way through the final quarter after the county reports have been received and reviewed by DHS. Counties will only have federal dollars during the final weeks of the year, greatly reducing the possibility that federal funds could be underspent.

Persons Responsible: Janet Wiig, Sandra Erickson, John Sellen  
Completion Date: Bill is already before the legislature