

**DEPARTMENT OF HUMAN SERVICES
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1989**

MARCH 1990

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

90-15

•SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1989

Public Release Date: March 28, 1990

No. 90-15

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: policies, procedures, payroll, and administrative disbursements associated with various state and federal programs
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

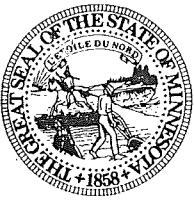
We found one area where the internal control structure needed improvement:

- The Systems Division had an inadequate process for monitoring consultants' time reporting.

We found two areas where the department had not complied with finance-related legal provisions:

- The department was not monitoring the resolution of subrecipient audit findings as required by the Single Audit Act.
- The department exceeded the state appropriation for employment special needs grants. As a result, counties were overpaid \$162,200 in 1989.

Contact the Financial Audit Division for additional information.
(612) 296-1730



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Ann Wynia, Commissioner
Department of Human Services

Audit Scope

We have conducted a financial related audit of the Department of Human Services as of and for the year ended June 30, 1989. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Human Services, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Human Services in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transactions of the Department of Human Services are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Department of Human Service's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Department of Human Services is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;
- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures associated with the following state and federal programs, including payroll and administrative disbursements:

State Funded Programs

Chronic Mentally Ill
Community Social Services
General Assistance Grants
Implement Mental Illness Rule 36
Preadmission Screening/Alternative Care
Minnesota Supplemental Aid
Work Readiness

State/Federal Matching Programs

Medical Assistance Program	(CFDA #13.714)
States Family Support Payments	(CFDA #13.780)

Federal Programs

Food Stamps	(CFDA #10.551)
Aids Drug Reimbursement	(CFDA #13.146)
Homeless Mental Health	(CFDA #13.150)
Aging Support Services	
Senior Centers	(CFDA #13.633)
Child Welfare Services	(CFDA #13.645)
Foster Care - Title IV-E	(CFDA #13.658)
Social Services Block Grant	(CFDA #13.667)
Child Support Enforcement	(CFDA #13.783)
Refugee Assistance	(CFDA #13.787)
Alcohol/Drug/Mental	
Health Block Grant	(CFDA #13.992)

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Conclusions

Our study and evaluation disclosed the condition discussed in finding 1 involving the internal control structure of the Department of Human Services. We consider it to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition described in finding 1 is not a material weakness.

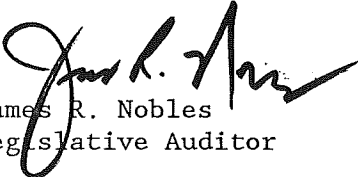
We also noted other matters involving the internal control structure and its operation that we reported to the Department of Human Services at our exit conference on February 27, 1990.


Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. The results of our tests of compliance disclosed the instances of noncompliance noted in findings 2 and 3.

Except as described above, the results of our tests indicated that, with respect to the items tested, the Department of Human Services complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Department of Human Services had not complied, in all material respects, with those provisions.

Senator John E. Brandl, Chairman
Members of the Legislative Audit Commission
Ms. Ann Wynia Commissioner
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This report is intended for the information of the Legislative Audit Commission and management of the Department of Human Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 28, 1990.


James R. Nobles
Legislative Auditor


John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: February 9, 1990

REPORT SIGNED ON: March 23, 1990

DEPARTMENT OF HUMAN SERVICES
CENTRAL OFFICE

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AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer	Audit Manager
Tony Toscano	Auditor-In-Charge
Lois Davis, CPA	Auditor
Joan Haskin, CPA	Auditor
Rhonda Regnier, CPA	Auditor
Jeff Smith	Intern
Kim Chirhart	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff from the Department of Human Services on February 27, 1990:

Charles Schultz	Deputy Commissioner
David Doth	Assistant Commissioner
Jon Darling	Director, Financial Management

DEPARTMENT OF HUMAN SERVICES
CENTRAL OFFICE

I. INTRODUCTION

The Department of Human Services 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 is responsible to:

- license and monitor home care and residential programs for children and handicapped adults;
- monitor child and vulnerable adult abuse and provide funding for services delivered by community mental health centers;
- supervise programs administered by county welfare departments; and
- directly supervise the regional treatment centers and state nursing homes.

The Commissioner, Ann Wynia, was appointed by Governor Perpich in June of 1989. Sandra Gardebring was the Commissioner prior to that time. Departmental activities are financed primarily through General Fund appropriations and federal grants. Fiscal year 1989 central office expenditures, excluding the regional treatment centers and state nursing homes, were as follows:

<u>Category</u>	<u>Expenditures</u>
Grants and Aids	\$2,026,595,120
Personal Services	34,071,440
Administrative Expenditures	32,614,777
Redistributed Costs	17,349,290
Other Expenses	<u>9,186,815</u>
 TOTAL	 <u>\$2,119,817,442</u>

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II. CURRENT FINDINGS AND RECOMMENDATIONS

1. The Systems Division needs to improve controls over consultants' time reporting.

Our review of the Systems Division controls over time reporting for computer services consultants disclosed the following weaknesses:

- Consultants' timesheets are not signed and dated by the division project managers; and
- The division does not have a reliable process for preparing and authorizing the time distribution reports.

First, project managers do not sign the consultants' timesheets to ensure the accuracy and completeness of hours worked. The Systems Division employs 21 consultants to provide computer services that the Department of Administration is unable to provide. Consultants are required to submit weekly timesheets to the Systems Division project managers detailing the time spent on specific projects. However, the division does not require project managers to certify in writing that the hours worked by the consultant are accurate. A process to review and sign the consultants' timesheets would improve controls over hours worked and paid.

Second, the division does not have a reliable process for preparing and authorizing the time distribution reports. Timesheets are used to complete the time distribution reports which are forwarded to InterTech for support of payments to the consulting firms. Of 49 time distribution reports reviewed, the lead project manager completed 30 reports and various other division staff completed 19 reports. As a result of the various staff involved in the process, reports were submitted to InterTech without including hours worked on all projects. InterTech notified the department accountant that more hours were being billed by the consulting firms than had been approved by the Systems Division. The division found that certain consultants timesheets had not been included on the time distribution reports. The division should establish a process to ensure the accuracy of the time distribution reports.

InterTech's reliance on the Systems Division to provide accurate time summaries increases the need for effective controls to ensure proper payments.

RECOMMENDATIONS

- Consultants' timesheets should be signed and dated by Systems Division project managers; and
- The division should establish a reliable process for preparing and authorizing the time distribution reports.

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2. PRIOR AUDIT FINDING NOT RESOLVED: The department is not monitoring the resolution of subrecipient audit findings under the Single Audit Act.

The department did not resolve findings directly related to its federal programs reported in subrecipient audits for 1988. Subrecipient audits contained questioned costs of \$57,639 for specific federal programs. Twenty of these audits disclosed instances of noncompliance with specific federal program guidelines. The department developed written procedures to resolve audit findings related to its programs and corresponded with the subrecipients on 1987 audit issues. However, the process is not complete for the 1988 reports. For 1988, the department reviewed the subrecipient audits and identified the questioned costs and program specific findings; however, it has not corresponded with the subrecipients on resolving these issues.

The department has not implemented a process to resolve cross-cutting issues for subrecipients assigned by the Department of Finance. Cross-cutting issues are findings disclosed in subrecipient audits that affect the administration of all federal programs. The Department of Finance has assigned Human Services to monitor resolution of findings for the 87 Minnesota counties and 12 other subrecipients, including regional development commissions and local social service organizations. The department is currently working with Finance to establish a system to resolve cross-cutting issues.

The Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-128 require states to resolve issues within six months after receipt of the subrecipient audit reports. The department should resolve subrecipient findings within the six month period to ensure compliance with the federal regulations.

RECOMMENDATIONS

DHS should:

- monitor the resolution of subrecipient audit findings for its specific federal programs; and
- work with the Department of Finance to finalize the process to resolve cross-cutting issues for the respective subrecipients.

3. The department exceeded the state appropriation for employment special needs grants.

The department exceeded its appropriation for employment special needs grants by \$162,200 in fiscal year 1989. Minn. Laws 1987, Ch. 403, Art. 1, Sec. 2, Subd. 6 specified that \$616,800 of the total Aid-to-Families with Dependent Children (AFDC) appropriation be used for employment special

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needs grants. However, the department spent \$779,000 for this purpose in 1989. Special needs is an activity within the AFDC Program. State and federal funds, subgranted to counties, provide supplemental grants to individuals for employment and maintenance special needs. Employment special needs are employment-related transportation and educational expenses. Maintenance special needs include costs for maintaining a habitable shelter, basic household furnishings, and medically-prescribed diets.

The state share of special needs payments to counties is not monitored by the department; therefore, the appropriation was exceeded. The department calculates the total state and federal funds available for the AFDC Program including special needs and allocates the funds to the individual counties. Staff review quarterly expenditure reports submitted by the counties and adjust the counties' allocations to ensure that spending does not exceed the total AFDC funds available. However, the amount specified by the appropriation laws for special needs grants is not separately monitored. Although the total appropriation for AFDC was not exceeded, the department did not comply with the specific appropriation limit for the special needs grants. Therefore, counties were overpaid by \$162,200 for 1989. The department could place the special needs appropriation into a separate allotment or establish a separate encumbrance for the funds to ensure that overspending in this area does not occur.

RECOMMENDATIONS

The department should:

- establish procedures to ensure that the appropriation for special needs is not exceeded; and
- adjust payments to counties to correct the overpayments of \$162,200.



STATE OF MINNESOTA
DEPARTMENT OF HUMAN SERVICES
Human Services Building
444 Lafayette Road
St. Paul, Minnesota 55155-38¹⁵

March 19, 1990

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

Dear Mr. Nobles:

The Department of Human Services is submitting its responses to the findings and recommendations included in the draft management letter resulting from your audit of this agency for the year ended June 30, 1989. It is our understanding that these responses will be published with your final management letter report.

The Department of Human Services has a policy of conducting regular follow-up checks to evaluate the progress being made to resolve all audit findings. Progress is monitored until full resolution has occurred.

Sincerely,


ANN WYNIA
Commissioner

cc: Renee Redmer



AN EQUAL OPPORTUNITY EMPLOYER

AUDIT FINDING #1

The Systems Division needs to improve controls over consultants' time reporting.

AUDIT RECOMMENDATION #1-1

Consultants' timesheets should be signed and dated by Systems Division project managers.

DHS RESPONSE #1-1

Consultants are required to submit signed time reports to their activity manager or project leader on a weekly basis. The activity manager or project leader reviews the time sheets for accuracy and completeness and transfers the hours onto the weekly time distribution report. The time distribution reports are signed and dated by the activity managers or project leaders to indicate that the information has been reviewed and found to be accurate. The reports are then submitted to Intertechnologies for entry into the payment system.

These reporting requirements have been in place for several years. To ensure compliance, some procedural changes were made and more thorough reviews were begun during the audit and will continue.

PERSONS RESPONSIBLE

Kenneth Hasledalen
Various Activity Managers and Project Leaders

ESTIMATED COMPLETION DATE

March 19, 1990

AUDIT RECOMMENDATION #1-2

The division should establish a reliable process for preparing and authorizing the time distribution reports.

DHS RESPONSE #1-2

A list of contractor work guidelines is given to each consultant when they begin working with DHS. These rules are reviewed with each contracting firm at the bidders conference held at Intertechnologies each year. The guidelines summarize the expectations of DHS according to the written contract.

Audit controls were installed early in December, 1989. All suggested control mechanisms were installed and will continue.

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AUDIT RECOMMENDATION #1-2, CONTINUED:

PERSONS RESPONSIBLE

Kenneth Hasledalen
Systems Division Accountant

ESTIMATED COMPLETION DATE

December 1, 1989

AUDIT FINDING #2

PRIOR AUDIT FINDING NOT RESOLVED: The Department is not monitoring the resolution of subrecipient audit findings under the Single Audit Act.

AUDIT RECOMMENDATION #2-1

DHS should monitor the resolution of subrecipient audit findings for its specific federal programs.

DHS RESPONSE #2-1

Audit reports of DHS subrecipients are being monitored and audit exceptions pertaining to specific federal programs are being documented. Requests for corrective action plans will be made as the 1989 audit reports are received. All unresolved audit recommendations remaining from prior years will be included in this process.

PERSONS RESPONSIBLE

John Egan

ESTIMATED COMPLETION DATE

July 1, 1990

AUDIT RECOMMENDATION #2-2

DHS should work with the Department of Finance to finalize the process to resolve cross-cutting issues for the respective subrecipients.

AUDIT RECOMMENDATION #2-2, CONTINUED:

DHS RESPONSE #2-2

An agreement was reached between DHS and the Department of Finance in February, 1990 concerning the criteria that will be used to identify the subrecipient audit findings, including cross-cutting issues, that DHS will be responsible for monitoring as a cognizant state agency. DHS will monitor the resolution of subrecipient audit findings within the context of these new guidelines.

PERSONS RESPONSIBLE

John Egan

ESTIMATED COMPLETION DATE

July 1, 1990

AUDIT FINDING #3

The department exceeded the state appropriation for employment special needs grants.

AUDIT RECOMMENDATION #3-1

The department should establish procedures to ensure that the appropriation for special needs is not exceeded.

DHS RESPONSE #3-1

Normally, the state share of employment special needs expenditures in excess of the state appropriation is recouped from counties during the fiscal year end settlement. Due to a change in staff last summer, the fiscal year end settlement process for ESN was completed after the audit.

On February 12, 1990, the Governor approved a recommendation from the Legislative Advisory Commission to transfer all unspent state employment special needs funds to the STRIDE program. This transfer of funds has in effect terminated the employment special needs program.

PERSONS RESPONSIBLE

Michael Wieland

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AUDIT RECOMMENDATION #3-1, CONTINUED:

ESTIMATED COMPLETION DATE

June 1, 1990

AUDIT RECOMMENDATION #3-2

The department should adjust payments to counties to correct the overpayments of \$162,200.

DHS RESPONSE #3-2

After reviewing employment special needs expenditures for SFY 1989, the state share of ESN expenditures was determined to be \$162,320.09. As of February 27, 1990, \$159,354.49 had been recouped from counties by adjusting county abstracts. The remaining \$2,965.60 will either be recouped by adjusting county abstracts or will be invoiced by March 31, 1990.

PERSONS RESPONSIBLE

Michael Wieland

ESTIMATED COMPLETION DATE

June 1, 1990