DEPARTMENT OF HUMAN SERVICES
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1990

APRIL 1991

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

91-21

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

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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Natalie Steffen, 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, 1990. 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, 1990.

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 Services'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

- 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 in the following state and federal programs. Federal financial assistance programs are categorized by Catalog of Federal Domestic Assistance Number (CFDA):

- Community Social Services Block Grant
- Medical Assistance CFDA #13.714
- States Family Support Payments CFDA #13.780
- Food Stamps CFDA #10.551
- Aging Support Services CFDA #13.633
- Foster Care 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 CFDA #13.992
- Homeless Mental Health Services Block CFDA #13.150
- Jobs Opportunities/Stride CFDA # 13.781

For all of the internal control structure programs 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

In our opinion, the internal control structure of the Department of Human Services in effect at June 1990, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial activities attributable to transactions of the Department of Human Services.

However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Department of Human Services at a meeting held on January 30, 1991.

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 1 to 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.

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 April 10, 1991.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: January 30, 1991

REPORT SIGNED ON: April 5, 1991

DEPARTMENT OF HUMAN SERVICES
CENTRAL OFFICE

TABLE OF CONTENTS

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
Carl Otto, CPA	Auditor
Joan Haskin, CPA	Auditor
Kari Irber, CPA	Auditor
Steve Pyan, CPA	Auditor
Amy Jorgenson	Auditor
Mark Johnson	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff from the Department of Human Services on January 30, 1991:

George Steiner	Deputy Commissioner
Charles Schultz	Assistant Commissioner of Finance and Management
Janet Wiig	Assistant Commissioner of Mental Health Programs
Jon Darling	Director, Financial Management Division
Cindy Turnure	Director, Chemical Dependency Program Division
John Gostovich	Program Management Coordinator, Chemical Dependency Program Division

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 Commissioner, Natalie Steffen, was appointed the administrative head of the department by Governor Carlson in January of 1991. Ann Wynia was the previous commissioner. The department is mainly 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.

Departmental programs and activities are financed primarily through General Fund appropriations and federal grants. Fiscal year 1990 central office expenditures related to the various programs and activities, excluding the regional treatment centers and state nursing homes, are shown below. Federal programs include state matching expenditures and are categorized by the Catalog of Federal Domestic Assistance Number (CFDA). Local match paid by the state is not shown below for Medical Assistance (CFDA 13.714).

	Expenditures
Federal Programs:(1)	
Medical Assistance - CFDA #13.714	$1,413,769,719
States Family Support Payments - CFDA #13.780	290,327,279
Foster Care - CFDA #13.658	47,971,438
Social Services Block Grant - CFDA #13.667	47,952,511
Child Support Enforcement - CFDA #13.783	30,958,160
Food Stamps - CFDA #10.551	18,762,663
Jobs Opportunities/Stride - CFDA #13.781	13,910,991
Refugee Assistance - CFDA #13.787	13,411,851
Aging Support Services - CFDA 13.633	7,107,918
Alcohol/Drug/Mental Health Block - CFDA #13.992	5,517,835
Homeless Mental Health Services Block - CFDA 13.150	736,996
Nonmajor Federal Programs	15,864,830
State and Other Programs:(2)	
Community Social Services Block - State	48,757,151
Other General Fund Programs	294,501,983
Other Programs	93,842,485
Total Departmental Expenditures	$2,338,393,810

Source: (1) *Minnesota's Financial and Compliance Report on Federally Assisted Programs*,

(2) The Community Social Services Block amount is derived from the Statewide Accounting System, with any adjustments needed for presentation in the *Comprehensive Annual Financial Report*. "Other General Fund Programs" and "Other Programs" amounts are derived from the budgetary expenditures recorded on the Statewide Accounting System.

II. CURRENT FINDINGS AND RECOMMENDATIONS

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

The department has not resolved internal control and compliance findings related to its federal programs reported in subrecipient audits for 1987 - 1989. Questioned costs of $694,277 from 1987 - 1989 also remain unresolved. The department is responsible for monitoring subrecipient audit findings for the 87 Minnesota counties and 22 other local entities. The department developed procedures to monitor findings and questioned costs for the 87 counties and two human services boards. However, findings and questioned costs remained unresolved at June 30, 1990.

In September of 1990, the department began addressing the backlog of audit issues by corresponding with counties as the 1989 audit reports were received by the department. As the 1989 audit reports came in, the department requested corrective action plans from the counties for all unresolved issues from 1989 and prior. The department has received 49 county audit reports for 1989. Of the 49 received, DHS has corresponded with 44 of the subrecipients. However, the department did not monitor findings for the other subrecipients assigned by the Department of Finance. Department personnel plan to begin monitoring the other subrecipients once all county findings are resolved. Funds subgranted to the 87 counties represent about 90 percent of all funds administered by the department.

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 of receipt of the subrecipient audit reports. The department should resolve subrecipient findings within the six month period to ensure compliance with federal regulations.

RECOMMENDATIONS

- **The department should continue to address the backlog of subrecipient audit issues.**
- **The department should ensure that all future subrecipient audit issues are resolved timely in accordance with federal regulations.**

2. Reimbursement procedures for indirect costs need to be improved.

The department did not fully reimburse the General Fund for all statewide and agency indirect costs. During fiscal year 1990 three programs, Refugee and Entrant Assistance (CFDA #13.787), Alcohol/Drug Abuse/Mental Health Block Grant (CFDA #13.992), and Mental Health Planning and Demonstration (CFDA #13.125), did not fully reimburse the General Fund for indirect costs. The total amount unpaid for these programs which includes both statewide and agency indirect costs is $143,430. Minn. Stat. Section 16A.127 requires that unless a waiver is obtained state agencies must reimburse the General Fund for indirect costs. The department did not receive a waiver for these costs; and, therefore, was obligated to reimburse the General Fund.

In addition, the department did not make quarterly payments to the Department of Finance for statewide indirect costs for fiscal year 1990. Instead, the department waited for the actual billing from the Department of Finance which was received in February 1990. Department of Finance operating policy and procedure 06:03:22 requires payment of statewide indirect costs at least quarterly. The policy also states:

> ...if indirect costs are unknown due to late non-general fund billings or delays by the federal government in plan approval, use the previous year's cost as an estimate to make payments...

By using the prior years amount as a budgetary tool and making the required quarterly payments, the department can ensure that all programs pay their share of statewide and agency indirect costs.

RECOMMENDATIONS

- **The department should ensure that all programs reimburse the General Fund for their share of indirect costs.**

- **The department should make the required quarterly payments for statewide indirect costs to the Department of Finance.**

3. <u>The department did not adequately document compliance with federal spending requirements</u>.

The department is not adequately documenting compliance with the required federal spending percentages for the chemical dependency portion of the Alcohol/Chemical Dependency/Mental Health Block grant (CFDA #13.992). The department did not maintain sufficient documentation to show the source of data for the amounts reported to the federal government as expended in the various program areas. The annual report was submitted to the U.S. Alcohol, Drug Abuse, and Mental Health Administration in October 1990 for federal fiscal year 1989. The department showed a summary of expenditures and obligations for the various program areas, including the chemical dependency categories. The report documented compliance with the required spending requirements. However, the department did not maintain supporting documentation for these amounts. Therefore, we could not confirm the validity of the amounts reported by the department to the federal government.

DEPARTMENT OF HUMAN SERVICES
CENTRAL OFFICE

Title XIX, Part B of the Public Health Services Act, Sections 1915 (c) (7,8) and (1914) (d), establishes the following spending requirements for the chemical dependency portion of the grant:

Program Area	Required Percent
Prevention	20% Minimum
Alcohol Services	35% Minimum
Drug Services	35% Minimum
Women's Services	10% Minimum
Administration	5% Minimum

Furthermore, 46CFR 96.30, requires that:

> ... Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant... .

The department's current method of accounting for chemical dependency expenditures does not provide the necessary data summarized by the above categories to document compliance with the spending guidelines. Financial information recorded on the state's accounting system does not provide this level of data, and the department did not maintain supplementary records. Therefore, we were unable to verify that the chemical dependency expenditures complied with the required percentages.

RECOMMENDATION

- **The department needs to summarize data by specific program areas to document compliance with the federal spending requirements.**

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

March 28, 1991

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, 1990. 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,

for NATALIE HAAS STEFFEN
Commissioner

cc: Renee Redmer
Tony Toscano

Celebrate MINNESOTA 1990

AUDIT FINDING #1

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

AUDIT RECOMMENDATION #1-1

The Department should continue to address the backlog of subrecipient audit issues.

DHS RESPONSE #1-1

The single audit resolution responsibilities assigned by the Department of Finance have placed a major additional workload on DHS, and additional staff to meet this challenge have not been available. The magnitude of the workload associated with audit resolution for an agency as large as DHS needs to be fully recognized. Complete implementation and full performance of the single audit resolution function at the level demanded by other governmental agencies has had to be phased in since immediate full implementation is beyond the resources and capabilities of DHS.

Good progress has been made to date in bringing county audit resolution up to date. In order to accelerate the full implementation of audit resolution for other governmental agencies and non-profit agency contractors, one person is now assigned full time to clear the backlog of all unresolved single audit issues. This effort will continue until all discrepancies are eliminated. It is important to recognize that this effort will occur at the expense of other essential tasks.

PERSONS RESPONSIBLE

John Egan
Jeff Moe

ESTIMATED COMPLETION DATES

1. Counties - June 30, 1991
2. Other Governmental Agencies - September 30, 1991
3. Non-Profit Agency Contractors - December 31, 1991

AUDIT RECOMMENDATION #1-2

The Department should ensure that all future subrecipient audit issues are resolved timely in accordance with federal regulations.

DHS RESPONSE #1-2

After the backlog of audit resolution issues is eliminated, the function will be maintained on a current basis.

PERSONS RESPONSIBLE

John Egan
Jeff Moe

ESTIMATED COMPLETION DATE

December 31, 1991

AUDIT FINDING #2

Reimbursement procedures for indirect costs need to be improved.

AUDIT RECOMMENDATION #2-1

The department should ensure that all programs reimburse the General Fund for their share of indirect costs.

DHS RESPONSE #2-1

For fiscal year 1990, the Department of Human Services reimbursed the general fund nearly $20 million in federal earnings for statewide and agency indirect costs. The $143,430 questioned in the audit report represents only .7 percent of the total reimbursement made. It is a portion of the amounts allocated to five federal grants. In each case, the amount of the grant award from the federal agency was insufficient to cover the entire amount of statewide and agency indirect costs allocated. In the case of the Refugee grant, a retroactive reduction was made by the federal agency resulting in insufficient funds. The amount of federal funds available for reimbursing indirect costs for these five grants is beyond the control of our department. We have requested a waiver for the $143,430 from the Department of Finance.

AUDIT RECOMMENDATION #2-1, CONTINUED:

PERSONS RESPONSIBLE

Lyle Koenig

ESTIMATED COMPLETION DATE

April 15, 1991

AUDIT RECOMMENDATION #2-2

The department should make the required quarterly payments for statewide indirect costs to the Department of Finance.

DHS RESPONSE #2-2

The Department of Human Services (DHS) has requested and received approval from the Federal Division of Cost Allocation to make quarterly payments for statewide indirect costs based upon reliable estimates if the actual amounts are not available and has developed procedures to accomplish this if necessary. These procedures will only be necessary if the statewide indirect cost allocations are not received from the Department of Finance in time to incorporate in the DHS cost allocation process. For fiscal year 1991, the Department of Finance information was received timely and no estimations were necessary.

PERSONS RESPONSIBLE

Lyle Koenig

ESTIMATED COMPLETION DATE

Accomplished February 13, 1991

AUDIT FINDING #3

The department did not adequately document compliance with federal spending requirements.

AUDIT RECOMMENDATION #3

The department needs to summarize data by specific program areas to document compliance with the federal spending requirements.

AUDIT RECOMMENDATION #3, CONTINUED:

DHS RESPONSE #3

The department recognizes the importance of being able to fully document compliance with the Substance Abuse portion of the Alcohol, Drug Abuse and Mental Health Block Grant. The department will address this issue by putting a system into place which will tie all Block Grant expenditures to the relevant categories for which the federal government requires documentation of spending levels. While the department is confident that it has met the expenditure requirements of the Block Grant, the system that is described here will document that compliance in more detail.

The department is fortunate to have considerable data on the persons and organizations which benefit from the Block Grant. For persons entering treatment paid for by the Block Grant, the information in DAANES (Drug and Alcohol Abuse Normative Evaluation System) provides diagnostic information, client history, admission data and six month follow-up information. DAANES will be utilized to document whether a given treatment is alcohol- or drug-related and whether treatment expenditures are made to organizations with special women's programs. Many of the prevention programs funded through the Block Grant are required to complete ICSR reports (Individual Client Services Report), which also include diagnostic information that will be used in documenting whether services are drug- or alcohol-related.

The work statements and monthly progress and expenditure reports which accompany those which do not collect client-specific diagnostic information can be used to tie expenditures to the relevant federal categories [i.e., prevention (20 percent), drug-related (35 percent), and alcohol-related (35 percent), or women's programs (ten percent)].

The department plans to build a system using the above already existing data sources which ties each federal dollar to the appropriate category or categories. Initially, the system will be used to document that the minimum expenditures required by law have been met. However, when completed, the system will have the capacity to allocate <u>all</u> federal Block Grant dollars to the federal spending categories.

DHS RESPONSE #3, CONTINUED:

For Block Grant funds expended through the Consolidated Chemical Dependency Treatment Fund (CCDTF), the following process will be used to match expenditures with the required federal categories:

The Chemical Dependency Program Division will draw-down the portion of the Federal Block Grant used in the Consolidated Chemical Dependency Treatment Fund to pay for client placements that:

(a) are not made to hospitals (prohibited)
(b) have a DAANES (Drug and Alcohol Abuse Normative Evaluation System) record to document alcohol-related or drug-related diagnosis (Approximately 85 percent of all CCDTF vendors report on DAANES.)
(c) are not made for persons receiving MA reimbursement (to avoid the potential of two federal payments being counted against a single placement)
(d) are made for women receiving services in specialized women's programs (to indicate portion spent on women's programs)
(e) are made for enough additional placements [in addition to those identified in (d)] to account for all Block Grant funds in the CD Fund (approximately 70 percent of total award) These data will have identification on diagnosis (to satisfy drug/alcohol minimum expenditure requirements) because of the DAANES information accompanying each placement.

The work statements, goals, objectives, ICSR reports, progress reports and actual expenditures from all grants to specific institutions will be examined to determine whether they may be counted against the minimum required prevention expenditure (20 percent). In all cases, worksheets will clearly indicate the basis for the determination that the expenditure is prevention-related (e.g., ICSR report, monthly progress report, expenditure report, final report, etc.)

The work statements, goals, objectives, ICSR reports, progress report and actual expenditures from all grants to specific institutions will be examined to indicate whether they may be counted against the minimum required alcohol-related (35 percent) or drug-related (35 percent). Where programs are specifically designed to make no distinction between drugs and alcohol, no

DHS RESPONSE #3, CONTINUED:

attribution of federal funds will take place. In all cases where attribution is made, worksheets will clearly indicate the basis for the determination that the expenditure is drug- or alcohol-related (e.g., ICSR report, monthly progress report, expenditure report, final report, etc.)

Individual grants to specialized women's programs will be used to satisfy the ten percent expenditure minimum [in addition to the CD Fund expenditures identified in (d) above]. In this case, the work statements and progress reports will clearly indicate that the program receiving federal support is utilizing those funds to provide services solely to women. Minnesota has treatment, prevention and training activities which fall into this category.

Detailed worksheets with all relevant explanations and calculations will be maintained for reporting and auditing requirements. All determinations will be based on actual expenditures (as opposed to planned expenditures or allocations). Where necessary, grantees will be required to submit monthly information which provides additional information corresponding to the required federal expenditure categories.

PERSONS RESPONSIBLE

John Gostovich	Associate Director for Funding
Michael McMahon	Research and Evaluation Director
Phil Brekken	Program Director
Urban Landreman	Senior Systems Analyst
Dorrie Hennagir	Grants Manager
Ron Welch	Special Assistant to the Director

ESTIMATED COMPLETION DATE

Modifications are underway at this time. The new format and specifications for data presentation will be finalized by June, 1991.