

**DEPARTMENT OF HUMAN SERVICES
FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1991**

MAY 1992

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

92-29

Centennial Office Building, Saint Paul, MN 55155 • 612/296-4708

DEPARTMENT OF HUMAN SERVICES

FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: May 13, 1992

No. 92-29

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Policies and procedures for the distribution of various state and federal programs.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

We found eight areas where the internal control structure needed improvement:

- The department needs to improve eligibility determination and payment controls on the MAXIS system for the state's Family Support Payments Program (CFDA #93.020).
- The department is not promptly obtaining advances from the counties for payments processed on MAXIS for the state's Family Support Program.
- The department is not using the income/eligibility verification system for Family Support benefits on MAXIS.
- The department did not promptly transfer the federal housing allowance monies to the General Fund.
- The department did not document some adjustments made to its cost allocation plan.
- The department did not monitor cash advances and expenditures for its subgrantees in the Chemical Dependency Program (CFDA #93.992).
- The department does not monitor subrecipient cash advances and expenditures for the Job Opportunities and Basic Skills Training Program.
- Controls over general assistance payments made to shelters for battered women and their children need improvement.

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

- The MAXIS system is not allocating overpayment recoveries and replacement checks to the proper accounts for the Family Support Program.
- The department is not cancelling state dated warrants for Family Support payments.
- The department overspent its fiscal year 1990 General Fund appropriation for Family Support benefits by \$1,077,199.
- The department did not monitor compliance with spending requirements for the Alcohol, Drug and mental Health Block Grant (CFDA #93.992).

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



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

CENTENNIAL 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, 1991. 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, 1991.

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

- Medical Assistance CFDA #93.778
- States Family Support Payments CFDA #93.020
- Social Services Block Grant CFDA #93.667
- Child Support Enforcement CFDA #93.023
- Foster Care CFDA #93.658
- Food Stamps CFDA #10.551
- Jobs Opportunities/Stride CFDA #93.021
- Aging - Nutrition Services CFDA #93.635
- Aging Support Services CFDA #93.633
- Refugee Assistance CFDA #93.026
- Alcohol/Drug/Mental Health Block CFDA #93.992
- General Assistance Medical Care - State
- Community Social Services Block Grant - State
- Chemical Dependency Allocation - State

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

Our study and evaluation disclosed the conditions discussed in findings 1-3, 7-8, and 10-12 involving the internal control structure of the Department of Human Services. We consider

these conditions to be reportable conditions 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.

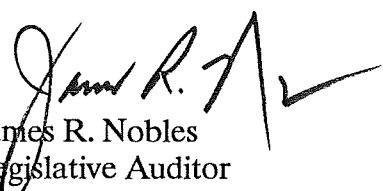
A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may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

We also noted other matters involving the internal control structure and its operation that we reported to the management of the Department of Human Services at the exit conference held on February 12, 1992.

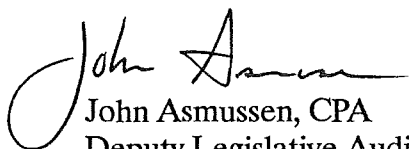
The results of our tests indicate that, with respect to the items tested, except for findings 3-6 and 9, the Department of Human Services complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Department of Education 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 May 13, 1992.

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



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 30, 1992

Report Signed On: May 6, 1992

Department of Human Services

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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, LPA	Audit Manager
Tony Toscano	Auditor-In-Charge
Joan Haskin, CPA	Auditor
Mary Jacobson, CPA	Auditor
Jean Mellet, CPA	Auditor
Dan Quandt, CPA	Auditor
Susan Rumpca, CPA	Auditor
Christina Weiss	Auditor
Kevin Schimnich	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff from the Department of Human Services on February 12, 1992:

George Steiner	Deputy Commissioner
Charles Schultz	Assistant Commissioner of Finance and Management
Jon Darling	Director, Financial Management Division

Department of Human Services

Introduction

The Department of Human Services administers a public welfare program to meet the needs of Minnesota residents. The department provides:

- 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.

Natalie Steffen was appointed Commissioner of the department by Governor Carlson in January of 1991. 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. Central office expenditures for fiscal year 1991 totalled approximately \$2.7 billion, as reported on the statewide accounting system. Programs included in our audit scope are shown on the next page. Federal programs include state matching expenditures and are categorized by the Catalog of Federal Domestic Assistance Number (CFDA).

Department of Human Services

Expenditures

Federal Programs:(1)

Medical Assistance - CFDA #93.778	\$1,679,916,371
States Family Support Payments - CFDA #93.020	372,890,722
Social Services Block Grant - CFDA #93.667	48,830,211
Child Support Enforcement - CFDA #93.023	27,832,605
Foster Care - CFDA #93.658	25,799,740
Food Stamps - CFDA #10.551	23,891,202
Jobs Opportunities/Stride - CFDA #93.021	14,318,018
Aging - Nutrition Services - CFDA #93.635	8,447,537
Aging Support Services - CFDA #93.633	6,705,003
Refugee Assistance - CFDA #93.026	7,785,801
Alcohol/Drug/Mental Health Block - CFDA #93.992	5,191,812

State Programs:(2)

General Assistance Medical Care	112,265,611
Community Social Services Block Grant	53,159,893
Chemical Dependency Allocation	42,724,758

Source: (1) Minnesota's Financial and Compliance Report on Federally Assisted Programs,
(2) General Assistance Medical Care, Community Social Services Block, and Chemical Dependency Allocation, amounts are derived from the statewide accounting system, with any adjustments needed for presentation in the Comprehensive Annual Financial Report.

Current Findings and Recommendations

1. DHS needs to improve eligibility determination and payment controls for the States Family Support Payments Program (CFDA #93.020).

DHS has not properly controlled the use of certain edit override functions for Family Support benefits processed through the state's centralized computer system (MAXIS). The MAXIS system contains two computer edit override features that are fully controlled by the counties. DHS has not implemented an independent review process of the use of these edits to ensure the propriety of payments made to recipients of the Family Support Program.

Counties have complete control over two computer edit override features in the MAXIS system, the eligibility determination function (FIAT) and the check request workaround function. The counties are allowed the discretion to use these computer edit overrides without an independent check by DHS. The FIAT function allows the counties to override the eligibility determination made by the system. The second override allows the counties to issue a check to an applicant who may not have been determined to be eligible, or issue a check to an applicant in an amount other than that determined by the system. The department does not review the usage of the overrides by the counties. DHS has produced reports showing the extent to which the override features are being used but does not analyze the exceptions reported for propriety. Also, the department does not distribute copies of these exception reports to the counties. The use of these overrides by counties was very extensive as evidenced by a large volume of reports printed by DHS. The department is at substantial risk of improper payments by not reviewing and determining the propriety of using these override functions.

As of December 1991, most counties were processing Family Support payments through the MAXIS system. Expenditures for the Family Support Payments Program totalled about \$373 million for fiscal year 1991. Without a strong system of internal controls over the payments processed by MAXIS, DHS cannot ensure that material errors or irregularities will be detected in a timely manner. A strong system of internal controls requires that the counties should not have complete control over a process or edit override function. An independent check of the use of the computer edit override functions should decrease the department's risk of errors or irregularities.

Recommendation:

- *DHS should take the steps necessary to ensure that the usage of the MAXIS system override features for the Family Support Payments Program are appropriate.*

Department of Human Services

2. DHS is not promptly obtaining advances from the counties for the States Family Support Payments Program.

DHS is not promptly billing and collecting advances from counties for the Family Support payments processed by the MAXIS system. DHS is not properly managing its financial resources and is forfeiting interest earnings on these funds by not promptly collecting funds from the counties.

DHS did not promptly obtain funds from the counties for the Family Support payments processed by the MAXIS system. The MAXIS system processes and pays recipients directly for Family Support benefits. DHS pays the federal and nonfederal shares of the Family Support benefit payments. Currently, the state funds the nonfederal share. Counties advance funds initially and DHS subsequently reimburses the counties for benefit payments processed by the MAXIS system. DHS is responsible for collecting advances from the counties for the Family Support benefit payments. DHS collects county advances by using the actual expenditure data from prior months. For example, actual expenditures for March 1991 were used to bill the counties for the May 1991 advance. However, the billings for the May advance, totalling \$383,839 were not sent to counties until the end of June 1991. DHS encountered similar delays in the county billing process for other months. The total amount of county billings processed by MAXIS from September 1990 to March 1991 was \$1,635,671.

DHS should improve its financial management over the Family Support Program by collecting county advances more timely. This would increase funds available for program payments and increase interest earnings. A strong system of internal controls should include procedures for prompt billing and collection of county advances for the Family Support Program.

Recommendation

- *DHS should ensure that counties advance funds for MAXIS payments in a timely manner.*

3. DHS is not using the income\eligibility verification system for Family Support benefits.

DHS is not using an income\eligibility verification system (IEVS) for the Family Support Program. Federal regulation 45 CFR, Chapter II, Section 205.51 requires use of an income\eligibility verification system. The income\eligibility verification system is required to confirm that applicants report financial resources accurately. The system uses financial information from sources such as the Internal Revenue Service, Social Security and the Department of Jobs and Training.

Department of Human Services

DHS produces the required reports from the IEVS; however, it does not use the reports to confirm recipient resources. 45 CFR, Chapter II, Section 205.56 requires that the state agency use the IEVS to determine the propriety of recipient eligibility. DHS has not obtained approval from the federal government to suspend use of the income\eligibility verification system. Therefore, DHS is not in compliance with the federal regulations governing verification of recipient eligibility. Additionally, the department is not using this technique to minimize its risk of paying benefits to ineligible recipients. DHS should comply with the federal regulation for confirming recipient resources for eligibility. This process will strengthen controls over the benefit payments for Family Support.

Recommendation:

- *DHS should use the income\eligibility verification system to confirm the accuracy of recipient resources.*

4. The MAXIS system is not allocating overpayment recoveries and replacement checks to the proper accounts for the Family Support Program.

The MAXIS system is not accurately allocating overpayment recoveries and duplicate payment transactions to the federal, state and local accounts for Family Support. The system does not allocate the correct percentage shares of amounts collected for benefit overpayments to state and local accounts as specified by state statute. MAXIS also does not properly charge replacement checks issued to the state account as required by federal law.

MAXIS is not properly allocating overpayment recoveries to the state and local accounts. Minn. Stat. Section 256.019 requires that the nonfederal share of overpayment recoveries be split evenly between state and local accounts if the recovery was the result of county effort. If the recovery does not require county effort, the county is only to receive 15 percent of the nonfederal share. Currently, the MAXIS system handles all overpayment recoveries as county effort recoveries and credits 50 percent of the amounts collected to the local account. The system does not reduce the county credits to 15 percent for those recoveries that do not require county effort. Although the amounts relating to fiscal year 1991 are small, the effect on future years will be greater as all counties are converted to the MAXIS system. By treating all recoveries as county effort the state is not receiving funds that it is entitled to. DHS is also not in compliance with the state statute governing the allocation of benefit recoveries for the Family Support Program.

Duplicate checks are issued in cases where an applicant reports that the original check is lost. Currently, MAXIS charges the federal government for both the original and replacement checks. DHS estimates that MAXIS will process about \$200,000 annually in duplicate checks. Federal regulation 45 CFR, Chapter II, Section 201.70 requires that all replacement checks be paid entirely with nonfederal funds. By not appropriately allocating replacement checks to the state account DHS is not complying with the federal law. DHS is also overcharging the federal government for these amounts.

Department of Human Services

Recommendation:

- *DHS should make the necessary corrections to the MAXIS system so that all benefit recoveries and replacement checks are properly allocated to federal, state and local accounts.*

5. DHS is not cancelling stale dated warrants for the Family Support Program.

DHS is not cancelling and refunding the federal share of warrants outstanding for Family Support benefits processed by MAXIS. Stale dated warrants are those outstanding after 180 days. Federal regulation 45 CFR, Chapter II, Section 201.67 (c) requires the state to refund federal financial participation in any warrants outstanding more than 180 days. The MAXIS system currently has the capability to identify stale dated warrants; however, DHS has not utilized the information to cancel the warrants and return the required amount to the federal government. Failure to cancel stale warrants results in DHS not complying with federal regulations.

Recommendation:

- *DHS should refund the federal financial participation for stale dated warrants as required by federal regulations.*

6. DHS overspent its fiscal year 1990 General Fund appropriation for Family Support benefits.

DHS overspent the fiscal year 1990 General Fund appropriation for Family Support benefits by \$1,077,199. The 1990 General Fund appropriation for Family Support of \$67,267,857 was fully expended. DHS paid an additional amount of \$1,077,199 for 1990 benefits from the fiscal year 1991 appropriation. The appropriation law states that funds can only be transferred between programs or fiscal years of the biennium after consulting the Legislative Advisory Commission (LAC), Department of Finance, and the Governor. DHS did not obtain the appropriate approval to use fiscal year 1991 funds to pay 1990 obligations. By not obtaining the appropriate approvals DHS was in violation of the appropriation law.

Recommendation:

- *DHS should seek the proper approvals before obligating the state for additional Family Support benefits.*

Department of Human Services

7. DHS did not promptly transfer the federal housing allowance monies to the state's General Fund.

DHS requested federal funds for the Family Support housing allowance and used the funds for benefit payments instead of transferring the amounts to the General Fund. DHS used the housing allowance for benefit payments because of cash flow shortages. The Department of Revenue makes annual rent credit\property tax relief payments to individuals, some of which are Family Support recipients. DHS recovers a portion of these payments from the federal government through the Family Support Program. DHS should return federal funds for the housing allowance to the General Fund. For the quarter ended September 1990 DHS used federal housing allowance funds of \$4,112,583 for Family Support benefit payments then later returned the required amount to the General Fund.

Recommendation:

- *DHS should transfer the federal housing allowance to the General Fund more promptly.*

8. DHS did not document some adjustments made to its cost allocation plan.

DHS did not adequately support certain adjustments to its cost allocation plan. DHS charged statewide and agency indirect costs to its various programs through the use of a cost allocation system. Each quarter, DHS downloaded cost data from the statewide accounting system to its computerized cost allocation system.

DHS adjusted the statewide accounting data used in the allocation process without documenting the reasons for the changes. DHS adjusted costs shown on statewide accounting in preparing its cost allocation plan for 1991. However, DHS did not properly document certain adjustments to ensure the propriety of costs allocated to the various programs. For the quarter ending June 30, 1991 DHS downloaded \$29,602,049 in costs from the statewide accounting system. In preparing the cost allocation worksheets, DHS made adjustments to actual costs which were not adequately documented. Additionally, DHS erroneously reduced costs by \$1,339,202, resulting in underclaimed costs.

DHS should develop appropriate documentation to support the costs allocated to the programs. Adjustments to data used in the cost allocation process should be supported. The lack of proper documentation decreases the department's ability to prevent and detect material errors or irregularities.

Recommendation:

- *DHS should take the steps necessary to ensure that all adjustments to the quarterly indirect cost allocation are adequately supported.*

Department of Human Services

9. DHS did not monitor compliance with spending requirements for the Alcohol Drug and Mental Health Block Grant.

DHS does not verify that the final expenditure totals for the chemical dependency portion of the Alcohol Drug and Mental Health Block Grant (CFDA #93.992) comply with required spending levels. Public Law 95-37, Sections 1915(c) (7,8) & 1914(b) set forth certain spending requirements for the grant. The requirements are as follows:

- at least 35% spent on alcoholism and alcohol abuse
- at least 35% spent on drug abuse
- at least 20% spent on prevention services
- at least 10% spent on womens projects

Projects may satisfy more than one of the requirements. DHS is required by the federal government to report on the use of the chemical dependency funds at the end of the year. DHS prepares this report using estimated expenditure data based on obligations made in the various categories. DHS uses estimated data since actual expenditure information is not available until the next year. DHS receives actual data from reports submitted by the subrecipients. DHS does not use the final data to determine that it meets the categorical spending requirements. Failure to verify compliance with the program spending requirements increases the risk that DHS may need to return a portion of the federal grant funds.

Recommendation:

- *DHS should verify compliance with federal spending requirements using actual expenditure data as it becomes available.*

10. DHS did not monitor cash advances and expenditures for its subgrantees in the Chemical Dependency Program (CFDA #93.992).

DHS advanced chemical dependency funds to two subgrantees for fiscal year 1992 without monitoring the expenditure of prior year allocations. One subgrantee received an advance of \$3,585 for 1991 but never submitted expenditure reports for the year. This subgrantee received a 1992 award and an additional advance of \$11,250. The second subgrantee received \$7,458 in excess of its reported expenditures for 1991. In addition, it received two payments totaling \$15,278 for its 1992 grant.

A strong system of internal controls includes proper monitoring of subgrantee expenditures to ensure the correct entitlement of funds. Cash advances should be settled with subgrantees before funds are advanced for the next program year. DHS weakens its ability to collect overpayments by not promptly settling one grant years allocations before advancing funds for following years programs.

Department of Human Services

Recommendation:

- *DHS should not advance funds to subgrantees for the current year if prior year grant activity has not been settled.*

11. DHS does not monitor subrecipient cash advances and expenditures for the Job Opportunities and Basic Skills Training Program (CFDA #93.021).

DHS does not closely monitor cash advances and expenditures of the counties for case management, employment and training activities. DHS does not promptly monitor either program expenditures or the state statutory limitation on administrative costs for the Job Opportunities and Basic Skills Training Program. DHS overpaid \$828,735 to 76 counties for fiscal year 1991 because it did not monitor the use of funds on a timely basis. DHS did not adjust county advances for these overpayments until the 1992 program year.

DHS sent the fourth quarter allocations to counties for 1991 without comparing total expenditures with funds already advanced. Since DHS did not compare accumulative expenditures reported by the counties to the amounts advanced, the department overpaid most counties. After the initial advances are sent to the counties for the program year, subsequent advances are based on quarterly expenditure reports submitted by the counties. DHS should monitor the subgrantees financial activities more closely to minimize advancing excess funds. DHS should compare accumulated yearly advances and expenditures reported by the counties before the last quarter to reduce the amounts advanced.

DHS does not monitor compliance with the spending limitations on a timely basis. For fiscal year 1991, DHS advanced funds to 39 of the 76 counties which exceeded the 15 percent limitation on administrative costs. Minn. Stat. Section 256.736, Subd. 16 (d) states that counties may spend no more than 15 percent of the case management and employment and training monies allocated for administrative expenditures. DHS did not check the counties administrative costs for 1991 until 1992. DHS adjusted the 1992 allocation for the 39 counties that were overpaid. DHS should establish a monitoring system to ensure that subgrantees administrative expenditures are within state regulations.

Recommendations:

- *DHS should monitor advances and expenditures of subgrantees before making the final quarter advances for each program year.*
- *DHS should monitor compliance with the state's spending limitations on a timely basis.*

Department of Human Services

12. Controls over general assistance payments made to shelters for battered women and their children need improvement.

DHS does not verify the accuracy of the shelters' financial data used to compute the daily general assistance rates. In addition, DHS does not check the assistance payments to confirm that it paid the proper rates to the shelters.

DHS does not review the data that the shelters use to determine the daily general assistance rates charged for the care of battered women and their children. DHS does not monitor fluctuations in the rates charged between the years. The shelters are authorized by state law to claim general assistance per diems based on estimated maintenance and security costs. Occupancy and capacity estimates also affect the rates. DHS is unable to determine if the shelters used accurate financial information when computing the per diems. During fiscal year 1991, DHS disbursed about \$3.7 million to shelters for battered women. The fiscal year 1992 per diems ranged from \$25.46 to \$78.77, with an average of \$58.15. The change in per diems from fiscal year 1991 to 1992 ranged from a decrease of 2.29 percent to an increase of 29.84 percent.

DHS does not check disbursements to confirm that the proper rates were paid the shelters. For most cases, the counties disburse funds to the shelters and then seek reimbursement from DHS. DHS reimburses the counties without ensuring that the counties disbursed funds at the established rates. When DHS disburses funds directly to the shelters, it does not verify the accuracy of the rates charged by the shelters. Minn. Stat. Section 256D.05, Subd. 3 gives DHS the authority to make general assistance payments to facilities providing maintenance and security to battered women and their children. DHS has the responsibility to be sure DHS disburses the correct amount of general assistance funds to shelters for eligible clients.

Recommendation:

- *DHS should improve controls over general assistance disbursements to shelters for battered women and their children. DHS should be sure that DHS disbursed the correct amounts for eligible clients.*



State of Minnesota
Department of Human Services

Human Services Building
444 Lafayette Road
St. Paul, Minnesota 55155

April 27, 1992

Mr. James R. Nobles
Legislative Auditor
Centennial Building
St. Paul, MN 55155

Dear Mr. Nobles:

The Department of Human Services is submitting its responses to the findings and recommendations included in the draft report resulting from your audit of this agency for the year ended June 30, 1991. It is our understanding that these responses will be published with your final 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,


NATALIE HAAS STEFFEN
Commissioner

cc: Renee Redmer
Tony Toscano

Audit Finding #1

DHS needs to improve eligibility determination and payment controls for the state's Family Support Payments Program (CFDA #93.020).

Audit Recommendation #1

DHS should take the steps necessary to ensure that the usage of the MAXIS system override features for the Family Support Payments Program are appropriate.

DHS Response #1

While the Department agrees that the use of the FIAT and MONY/CHCK functions should be subject to review, it is not posing specific new internal controls at this time. The reasons for this are:

- 1) A Quality Control review function is already in place which functions to monitor county practices with respect to eligibility and payment. There is also a secondary, "re-review" process by federal agency staff. These processes are used to identify areas where problems occur that require special attention from DHS. This will automatically happen if and when the review identifies these "override" features being used inappropriately.
- 2) Prior to MAXIS' implementation, all cases were handled under the conditions that would be termed "overrides." Counties had, and continue to have, supervisory processes and reports which help them review actions taken by workers. MAXIS has automated the eligibility and payment process, offering supervisors the benefit of reports, sorted by worker, which clearly define cases that have been FIATed.
- 3) All manual eligibility entries are not "overrides." They are also used as the method to input manual eligibility determination in situations where the system does not calculate eligibility, such as in most medical programs. These programs do not currently lend themselves to full automated eligibility. Any possible new controls would have to exclude these situations.
- 4) Rash implementation of new controls would cause greater problems than it might solve. Dual sign-offs would interrupt the flow of benefits, reducing

DHS Response #1, Continued:

quality in client service levels. Priorities dedicated to more reports would push out some other critical improvements to the system, including those to reduce the proportion of cases that must be overridden in the first place. If new controls are warranted, these should be carefully targeted controls that will produce the greatest gain for the least cost.

Although, per the above, DHS is not prepared to implement this recommendation in the form of increased controls, DHS *does* agree with the spirit of the recommendation. Toward this end, a team will be assigned within DHS to evaluate this situation and to determine if there are additional reasonable controls which should be pursued. The results of this assessment will be shared with the Legislative Auditor upon his request.

Persons Responsible:

Linda Ady - MAXIS Project
Paul Timm-Brock - Assistance Payments Division

Estimated Completion Date:

August 31, 1992 (for team report)

Audit Finding #2

DHS is not promptly obtaining advances from the counties for the state's Family Support Payments Program.

Audit Recommendation #2

DHS should ensure that counties advance funds for MAXIS payments in a timely manner.

DHS Response #2

Delays occurred during the first year of MAXIS operations with the implementation of a new computer system and billing procedures. The start up problems have since been resolved. We began billing counties on a current basis starting with the invoice

DHS Response #2, Continued

for November 1991. Now, invoices are produced by MAXIS within five days after the end of each month and are sent to counties within ten days. Payment is due from counties within 30 days.

The MAXIS invoice currently bills counties for an advance, and adjusts the billable amount each month to correct for any over or under advance. Timely payment of MAXIS invoices is monitored by DHS.

Persons Responsible

Herb Cashdollar - MAXIS Project
Scott Hedberg - Financial Management Division

Estimated Completion Date

In December 1991, DHS began billing counties on a current basis with the bill for November activity. We are still current in billing and counties are paying their MAXIS bills on time.

Audit Finding #3

DHS is not using the income\eligibility verification system for Family Support benefits.

Audit Recommendation #3

DHS should use the income\eligibility verification system to confirm the accuracy of recipient resources.

DHS Response #3

The Department has been complying with Income and Eligibility Verification System (IEVS) matching requirements since December, 1991.

Prior to MAXIS, IEVS matches were produced from a manual system of eligibility and benefit determination on paper printouts. IEVS matches were produced on-line through the MAXIS interface statewide effective December, 1991, following a pilot

DHS Response #3, Continued

of the system in four counties. All counties have been required to resolve IEVS matches on MAXIS once they were produced on the system.

IEVS is a much more efficient process on MAXIS. The system tracks costs and savings for each program and each type of IEVS match. Financial workers enter the time spent resolving IEVS matches along with savings information, such as denials, terminations, benefit increases and decreases, and claim information. The availability of this data will assist the state in completing a comprehensive cost/benefit analysis of all IEVS matches. Based on this analysis, the state will be able to quickly and easily identify the most beneficial match activities.

IEVS on MAXIS affords the opportunity to complete IEVS monitoring on a regular basis as well as on demand. While the department completed a comprehensive on-site compliance review of 41 county agencies in the past, this process was very labor intensive. The capability to informally monitor county agencies on a regular basis has been incorporated in MAXIS. MAXIS screens include a feature that tracks the time a worker has to resolve an IEVS match and comply with IEVS policy requirements for match resolution. The timeliness of resolutions can be viewed by supervisors and management staff as well as DHS staff. It is also possible to effectively evaluate the appropriateness of actions taken as a result of IEVS matches. Monitoring of IEVS requirements on a limited basis through the Department's Management Evaluation (ME) reviews is also planned in the near future.

Both the improved efficiency of the IEVS process with MAXIS and the Department's plans for future monitoring of IEVS compliance will ensure that IEVS will effectively be used to confirm the accuracy of recipient resources.

Persons Responsible

Pam Reinstatler - Assistance Payments Division
Sally Fashant - Assistance Payments Division

Estimated Completion Date

December, 1991

Audit Finding #4

The MAXIS system is not allocating overpayment recoveries and replacement checks to the proper accounts for the Family Support Program.

Audit Recommendation #4

DHS should make the necessary corrections to the MAXIS system so that all benefit recoveries and replacement checks are properly allocated to federal, state, and local accounts.

DHS Response #4

Minnesota Statute 256.98, Subd. 7, allows a county to retain one-half of the non-federal share of any recovery from a recipient, if the recovery is directly attributable to a county. It is the Department's position that county reimbursement of fifty per cent of the non-federal share is correct because of county efforts. County agencies are solely responsible for all efforts for documentation and determination needed to collect recipient overpayments of public assistance.

Procedures are being implemented to discontinue paying all duplicate checks through MAXIS.

Person Responsible

Paul Timm-Brock - Assistance Payments Division

Estimated Completion Date

June 30, 1992 (allocation of duplicate recoveries)

Audit Finding #5

DHS is not cancelling stale dated warrants for the Family Support Program.

Audit Recommendation #5

DHS should refund the federal financial participation for stale dated warrants as required by federal regulations.

Audit Recommendation #5, Continued

DHS Response #5

Currently, stale dated warrants are treated as stop payments, since to remove them from the file of the State Treasurer would prevent us from honoring the check if it is later presented by the client. Once the new check processing equipment is installed and tested in May, 1992, stale dated warrants will be cancelled, removed from the files of the State Treasurer and the State Wide Accounting System, and deducted from federal reports. If subsequently the client presents the warrant for payment, we will have the capability to post the issuance to SWA and the State Treasurer, claim the federal reimbursement, and honor the warrant.

Persons Responsible

Herb Cashdollar - MAXIS Project
Monitored by Mike Wieland - Financial Management Division

Estimated Completion Date

June 30, 1992

Audit Finding #6

DHS overspent its fiscal year 1990 General Fund appropriation for Family Support benefits.

Audit Recommendation #6

DHS should seek the proper approvals before obligating the state for additional Family Support benefits.

DHS Response #6

DHS paid the above FY 90 obligations (less than one per cent of the total state share) from FY 91 because the FY 90 appropriation was insufficient. State Law (Laws of 1991, Chapter 292, Article I, Section 2, Subd.1) provides for the transfer of funds between fiscal years of a biennium for entitlement programs. DHS attempted to address this problem in May, 1990 when we requested authority to

DHS Response #6, Continued

transfer funds between FY 90 programs and between FY 90 and FY 91 budgets. We underestimated the amount needed and our final 1990 budget was limited to the estimate prepared in May.

These obligations exist in law as entitlements, and by their nature, the obligations are not created by DHS. The expenditures were paid by counties and reported to DHS twenty to sixty days after the month in which they were spent. Therefore, we did not know the actual state share until sixty days after the fiscal year ended. Further, the state share of these programs was affected by the amount of the Mortgage and Deed Tax collections made by counties. The MDT amount was also unknown by DHS until counties submitted the above mentioned reports. These two factors made it impossible in May to estimate the exact budget needed.

This situation should not re-occur because of the following factors:

- 1) DHS has since implemented the MAXIS system, which determines and issues benefits for these programs from the state central office. Benefit payments for these programs are now made by the MAXIS system and will be completed by June 30th each year.
- 2) DHS is no longer required to offset the Mortgage and Deed Tax collections from these payments, which should make it less difficult to forecast the budget.

Persons Responsible

George Hoffman (General Fund Forecast) - Reports and Statistics Division
Bruce Lien (Fiscal Year Closeout) - Financial Management Division

Estimated Completion Date

Fiscal Year 1991 has already been closed. Fiscal Year 1992 closing is scheduled for September 1992.

Audit Finding #7

DHS did not promptly transfer the federal housing allowance monies to the state's General Fund.

Audit Recommendation #7

DHS should transfer the federal housing allowance to the General Fund more promptly.

DHS Response #7

The delay occurred because DHS had insufficient federal funding to pay all the federal obligations incurred during this period. The funding shortage occurred mainly because DHS over-advanced county agencies during conversion from county disbursement to MAXIS centralized disbursement of benefits. We advanced counties based on their estimated caseload conversion to MAXIS but gave them the benefit of the doubt to avoid under-advancing any county.

This condition was corrected in SFY 1991, and all federal obligations have been paid on a current basis since that time.

Persons Responsible

Bill Lansing - Financial Management Division
Bruce Lien - Financial Management Division

Estimated Completion Date

The transfer was completed June 10, 1991, and all subsequent federal obligations have been paid on a current basis.

Audit Finding #8

DHS did not document some adjustments made to its cost allocation plan.

Audit Finding #8, Continued

Audit Recommendation #8

DHS should take the steps necessary to ensure that all adjustments to the quarterly indirect cost allocation are adequately supported.

DHS Response #8

The majority of the adjustments made to the cost allocation download file represent "700" object code expenditures. Since the cost allocation system allocates costs with object code 001 - 499, it is necessary to manually adjust for costs in object codes 700-799.

Beginning with the December 1991 quarter allocation, each manual adjustment is documented with an explanation for the adjustment. This will continue to be done manually until the cost allocation system can be enhanced to perform a tracking system automatically as the quarterly reports are processed. Currently, no systems support staff are available to complete this enhancement to the system.

Person Responsible

Lyle L. Koenig - Financial Management Division

Estimated Completion Date

December, 1991 - manually

Audit Finding #9

DHS did not monitor compliance with spending requirements for the Alcohol Drug and Mental Health Block Grant.

Audit Recommendation #9

DHS should verify compliance with federal spending requirements using actual expenditure data as it becomes available.

Audit Recommendation #9, Continued

DHS Response #9

The Federal Department of Health and Human Services is in the process of revising Block Grant reporting requirements. The states will be required, beginning with their application for FFY 93 funds, to report obligations from the award made one year prior *as well as actual expenditures from the award made two years prior*. The Chemical Dependency Division has assembled a team to ensure compliance with the revised application and reporting requirements.

Person Responsible

Phil Brekken - Chemical Dependency Division

Estimated Completion Date

October 1, 1992

Audit Finding #10

DHS did not monitor cash advances and expenditures for its subgrantees in the Chemical Dependency Program (CFDA #93.992).

Audit Recommendation #10

DHS should not advance funds to subgrantees for the current year if prior year grant activity has not been settled.

DHS Response #10

The CD Division has adopted the following policy in its grants management activity:

No advances will be made to subgrantees when any significant prior year grant activity remains unsettled.

DHS Response #10, Continued

Person Responsible

Phil Brekken - Chemical Dependency Division

Estimated Completion Date

Policy will be implemented effective May 1, 1992

Audit Finding #11

DHS does not monitor subrecipient cash advances and expenditures for the Job Opportunities and Basic Skills Training Program (CFDA #93.021).

Audit Recommendation #11-1

DHS should monitor advances and expenditures of subgrantees before making the final quarter advances for each program year.

DHS Response #11-1

DHS has implemented procedures to monitor quarterly advances to ensure that year-end settlements will be minimal in the future.

Person Responsible

Randy Smunk - Financial Management Division

Estimated Completion Date

September 1, 1991

Audit Recommendation #11-2

DHS should monitor compliance with the state's spending limitations on a timely basis.

Audit Recommendation #11-2, Continued

DHS Response #11-2

DHS has implemented procedures to ensure, on a quarterly basis, that county grant earnings are not based on expenditures in excess of their annual spending limits.

Person Responsible

Randy Smunk - Financial Management Division

Estimated Completion Date

September 1, 1991

Audit Finding #12

Controls over general assistance payments made to shelters for battered women and their children need improvement.

Audit Recommendation #12

DHS should improve controls over general assistance disbursements to shelters for battered women and their children. DHS should be sure that DHS disbursed the correct amounts for eligible clients.

DHS Response #12

The Department, by statutory limitation, has no purview in the establishment of individual rates for shelters for battered women and their children. The per diem rate is based on actual security and maintenance costs and is calculated by each shelter facility and is not negotiable.

The Department will form a work group to examine current payment and disbursement methods. The purpose of the group will be to look at feasible improvements to the system based on the findings.

DHS Response #12, Continued

Person Responsible

Barb Anderson - Assistance Payments Division

Estimated Completion Date

October 1, 1992