

**DEPARTMENT OF HUMAN SERVICES**

**FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1992**

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**JUNE 1993**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**93-32**



# **DEPARTMENT OF HUMAN SERVICES**

## **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992**

Public Release Date: June 11, 1993

No. 93-32

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**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 one area where the internal control structure needed improvement:

- The Department of Human Services does not have adequate control over change requests or changes made to the applications software for the state's centralized benefit issuance system (MAXIS).

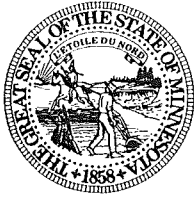
We found three areas where the department had not complied with finance-related legal provisions:

- The department of Human Services violated state law by incurring debt in excess of its resources in the administration of MAXIS. At March 31, 1993, the fiscal year 1992 development account had a deficit balance of approximately \$9 million. The department also anticipates that the fiscal year 1993 MAXIS operations account will be in deficit status. We are pursuing this issue further and will be making recommendations to the department in an audit report issued in the summer of 1993.
- The department does not have procedures for retrieving unaccessed Family Support (CFDA #93.020) benefits issued through the Ramsey County electronic benefit system.
- The department did not collect certain funds due the federal and state Family Support Program accounts.

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

FINANCIAL AUDIT DIVISION





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator Phil Riveness, 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, 1992. 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, 1992.

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 (including food coupons) CFDA #10.551
- Jobs Opportunities/Stride CFDA #93.021
- State Health Care Providers CFDA #93.777
- Refugee Assistance CFDA #93.026
- Alcohol/Drug/Mental Health Block CFDA #93.992
- General Assistance Medical Care
- Community Social Services Block Grant
- Cost of Residents' Care
- Medical Care Surcharge

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.

### **MAXIS Deficit Spending**

The Department of Human Services violated state law by incurring debt in excess of its resources in the administration of the state's centralized benefit issuance system (MAXIS). At March 31, 1993, the fiscal year 1992 development account had a deficit balance of approximately \$9 million. The department also anticipates that the fiscal year 1993 MAXIS operations account will be in deficit status. Although as of March 31, 1993, the account had a \$2.7 million positive balance, the department was holding \$5.6 million in unpaid Intertech billings for the period November, 1992 through March, 1993. The deficits resulted, in part,

from the department's failure to accurately estimate federal revenue and reduce expenditures when funding was not available. In addition, the scope of the project was expanded beyond that anticipated in the original budget.

The Department of Human Services requested authority from the Department of Finance to operate the MAXIS account in a negative status during the middle of fiscal year 1992. The reason given for the request was to continue paying MAXIS obligations while waiting for additional federal funds. Since Human Services has not yet received more federal support, it has requested a deficiency state appropriation of approximately \$15 million to cover the fiscal year 1992 and 1993 deficits. The department is still pursuing additional federal funds from the U. S. Departments of Health and Human Services and Agriculture.

We are further pursuing the reasons for the Department of Human Services deficit spending in administering the MAXIS system. We decided to review this area in more detail to provide a more in-depth explanation of the problems incurred by the department and to make more meaningful recommendations to Human Services. We will be issuing a report with this information in the summer of 1993. We also believe that the Department of Finance needs to improve its process of monitoring and controlling department account balances, such as Human Services, to ensure that deficit spending does not occur. This issue is discussed in finding #1 of the audit report issued to the Department of Finance for the year ended June 30, 1992.

## **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 this condition 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 do not believe the reportable condition described above is a material weakness.

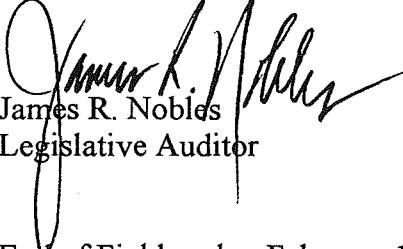
Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial activities being audited. The results of our tests of compliance disclosed the material instance of noncompliance as discussed in the previous section on MAXIS Deficit Spending.

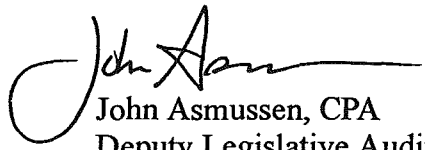
Senator Phil Riveness, Chair  
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Ms. Natalie Steffen, Commissioner  
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The results of our tests indicate that, with respect to the items tested, except for findings 2 and 3 and the paragraph above, the 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 June 11, 1993.

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: February 16, 1993

Report Signed On: June 4, 1993



## 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
Charlie Gill	Auditor-In-Charge
Mary Jacobson, CPA	Auditor
Karen Klein	Auditor
Carl Otto, CPA	Auditor
Steve Pyan, CPA	Auditor
Dan Quandt, CPA	Auditor
Susan Rumpca, CPA	Auditor
Pat Ryan	Auditor
Jon Ochetti	Intern

### Exit Conference

The findings and recommendations in this report were discussed with the following staff from the Department of Human Services on March 31, 1993:

Natalie Steffen	Commissioner
Charles Schultz	Assistant Commissioner of Finance and Management
Jon Darling	Director, Financial Management Division



## Department of Human Services

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### Introduction

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The Department of Human Services administers the public welfare system 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.

The Department of Human Services programs and activities are financed primarily through General Fund appropriations and federal grants. Department expenditures for fiscal year 1992 totalled approximately \$3.6 billion, as reported on the statewide accounting system. Expenditure 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).

The department's MAXIS system processes recipient eligibility for various state and federal benefit programs. Counties use the system to determine recipient eligibility. The department issues the benefits payments and food coupons centrally from the issuance operations center in St. Paul. State benefit warrants and food coupons are also issued by the issuance operations center for all counties except for Ramsey County. Ramsey County issuances are made using a separate electronic benefit issuance system.

Benefit payments issued by the department are shown in the respective program categories on the following page. For fiscal year 1992, the state also issued food coupons to recipients totalling \$201,537,008. Inventory of food coupons on hand at June 30, 1992, is valued at \$42,063,116.

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The department administers the revenue system for the cost of care related to the state regional treatment centers and community group homes. The department also assessed a medical care surcharge to various providers in 1992. For fiscal year 1992, cost of care revenue was \$93,839,339 and medical care surcharge revenue was \$46,682,817.

	<u>Federal Expenditures</u>	<u>State Match</u>	<u>Total Expenditures</u>
Federal Programs:(1)			
Medical Assistance - CFDA #93.778	\$1,045,403,932	\$927,906,612	\$1,973,310,544
States Family Support Payments - CFDA #93.020	238,547,283	177,134,631	415,681,914
Social Services Block Grant - CFDA #93.667	48,642,360		48,642,360
Child Support Enforcement - CFDA #93.023	23,610,877	7,734,551	31,345,428
Foster Care - CFDA #93.658	28,418,819	3,152,244	31,571,063
Food Stamps - CFDA #10.551	27,764,171		27,764,171
Alcohol/Drug/Mental Health Block - CFDA #93.992	20,515,190		20,515,190
Jobs Opportunities/Stride - CFDA #93.021	10,874,843	6,034,132	16,908,975
Refugee Assistance - CFDA #93.026	9,125,674		9,125,674
State Health Care Providers CFDA #93.777	3,909,466	573,060	4,482,526
State Programs:(2)			
General Assistance Medical Care			155,714,956
Community Social Services Block Grant			50,662,193

Sources: (1) Minnesota's Financial and Compliance Report on Federally Assisted Programs.

- (2) General Assistance Medical Care and Community Social Services Block amounts are derived from the statewide accounting system, with any adjustments needed for presentation in the Comprehensive Annual Financial Report.

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## Current Findings and Recommendations

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- 1. The Department of Human Services does not have adequate control over change requests or changes made to the applications software for the state's centralized computer system (MAXIS).**

The department does not resolve requests for software changes timely and does not properly control changes made to the MAXIS program applications. Users and programmers initiate change requests to correct problems or to improve the applications software. Changes are also mandated by state or federal law.

The department does not take action on change requests timely to ensure that the appropriate corrections or improvements are made to the system software. The electronic transaction used to initiate a change request or report a problem is a PF11 transaction. This transaction creates an electronic record that documents the problem or change requested. Any user with access to a terminal may initiate a PF11. When a user or programmer enters a PF11, MAXIS assigns a sequential task number. As of August 24, 1992, the department had assigned 51,611 task numbers to change requests. However, 10,091 or 20 percent of these requests remained unresolved. Many of the unresolved changes are simply suggested improvements that are not of a critical nature. We are concerned about 97 priority items that remain unresolved and are over one year old. The department is in the process of working on the backlog of change requests. Without resolving the change requests timely, the department cannot ensure that problems are corrected and that system improvements are made within a reasonable timeframe. This control is important in maintaining the integrity of the MAXIS system.

The department does not test for potential unauthorized changes to MAXIS applications software. Programmers make changes to MAXIS software as requested. Production control staff test and install modified programs as authorized by change requests. However, the department does not have a preventive control to test for any unauthorized changes made to its software applications. Without testing for unauthorized changes, the department becomes vulnerable to a control weakness. For example, a programmer could enter changes to the software to issue warrants to fictitious recipients. A programmer could also make other unauthorized changes. MAXIS has a built in software that allows a snapshot of the source code (programmer language) "before" and "after" the program changes. However, the department is not using this function to review the changes made to MAXIS. Control procedures over changes to MAXIS should include testing of all modified programs. The department needs a process which subjects all changes to testing. This should include testing for unauthorized changes as well as authorized changes.

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### *Recommendations*

- *DHS should establish and enforce procedures to ensure PFIIs are reviewed timely and any proper action taken.*
- *DHS should develop and enforce procedures to ensure only authorized changes are made to existing software and programs.*

### **2. The department does not have procedures for retrieving unaccessed Family Support (CFDA #93.020) benefits issued through the electronic benefit system.**

The department does not have procedures to identify and retrieve funds awarded to electronic benefit system recipients that are not accessed within the federal timelines. The department issues benefits to Ramsey County recipients through automated teller machines instead of by state issued warrants. However, the department does not have procedures to identify and cancel benefits which remain outstanding more than 90 days. Warrants issued to recipients for the other counties are cancelled when outstanding for more than 90 days.

In accordance with Federal Regulation 45 CFR, Chapter II, Section 201.67(c) the department should cancel warrants outstanding and return funds to the appropriate federal and state accounts. During state fiscal year 1992 electronic benefit system issuances totalled nearly \$42 million. The department currently does not receive information to determine the value of benefits outstanding more than 90 days.

### *Recommendations*

- *The department should work with Ramsey County to identify benefits outstanding for more than 90 days.*
- *The department and Ramsey County should ensure that refunds are properly made to the federal and state accounts.*

### **3. The department did not collect certain funds due to the federal and state Family Support Program accounts.**

The department has not properly identified and recovered certain overpayment recoveries recorded on the MAXIS system for the Family Support Program. Federal regulations and Minn. Stat. Section 256.019 require that the department promptly return overpayment recoveries to the appropriate federal and state accounts for Family Support.

Minnesota county human service agencies recover funds from overpaid recipients. The department had instructed the county workers to record cash recoveries in the MAXIS system

## Department of Human Services

using a "Cash Receipts" identifier code. The MAXIS system identifies these recoveries, bills the county for them, and credits the appropriate accounts for the Family Support Program.

Some county workers recorded cash recoveries of benefits in the MAXIS system using an "Other" identifier code. However, the department did not pursue further identification and collection of these recoveries from the county agencies and did not credit the appropriate federal and state accounts. Although, we were unable to quantify an amount the department estimates that miscoded recoveries are less than \$100,000. The MAXIS system was subsequently modified to disallow county workers the option to enter transactions under an "Other" code. This control should eliminate identification problems for the collection of future recoveries.

### *Recommendation*

- *The department should pursue collection of all cash recovery transactions miscoded by county agencies and credit the appropriate Family Support accounts.*







*State of Minnesota*  
***Department of Human Services***

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

June 2, 1993

Mr. James R. Nobles  
Legislative Auditor  
Centennial 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 report resulting from your audit of this agency for the year ended June 30, 1992. 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,

A handwritten signature in dark ink, appearing to read "Natalie Haas Steffen", with a long horizontal flourish extending to the right.

*for* NATALIE HAAS STEFFEN  
Commissioner

cc: Renee Redmer  
Charlie Gill

**Audit Finding #1**

The Department of Human Services does not have adequate control over change requests or changes made to the applications software for the state's centralized computer system (MAXIS).

**Audit Recommendation #1-1**

DHS should establish and enforce procedures to ensure PF11s are reviewed timely and any proper action taken.

**DHS Response #1-1**

DHS agrees with the importance of a quality change control and priority setting and monitoring process.

In the past, several methods have existed for identifying and controlling priorities for changes to MAXIS. The PF11 process and the Task Management Facility described by the Legislative Auditor are effective tools for receiving input about changes needed and tracking work on those changes. In the past, however, DHS has not used these tools exclusively, nor used the full capability of these tools to actually manage priorities. Instead, due to the complexity and breadth of the system, priorities have been determined and followed based on the program and technical judgments of supervisors and staff who have had the best perspective on which tasks would serve the most critical needs relative to available person hours.

At the time MAXIS shifted into its Operations Phase, we identified the same needs as noted in the audit report. We initiated a review of all tasks within the Task Management Facility which had an active status. The review of the Legislative Auditor took place in the midst of our own review. Since that time, we have evaluated and re-coded nearly 17,000 tasks out of 19,000 tasks which were in active status, in our continuing effort to get the Task Management Facility to be an accurate reflection of the work that is being done, or needs to be done.

This effort, however, only responds to part of the issue. We believe we can and should improve the process for identifying, setting, resourcing, and

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**DHS Response #1-1, Continued:**

monitoring the priorities of stakeholders as well. To do this, we will initiate a Continuous Quality Improvement process analysis to develop a more streamlined and controlled method. We plan to begin this analysis in June 1993 and will report on its progress or outcome in future quarterly progress reports.

In the meantime, we will continue the project described above to bring the Task Management Facility up to date.

Note: Regarding the portion of the recommendation related to the need to ensure timely review of PF11s, we wish to note that, from the early stages of the development effort, all new PF11s (100-200) are reviewed each day and the most critical requests are forwarded immediately to the appropriate staff to work on. This attention to incoming PF11s is not always reflected, however, in the coding on the PF11s themselves; this may be responsible for the auditor's conclusion regarding timely review of incoming PF11s.

**Persons Responsible**

Linda Ady  
Tom Rowland

**Estimated Completion Date**

October 1993

**Audit Recommendation #1-2**

DHS should develop and enforce procedures to ensure only authorized changes are made to existing software and programs.

**DHS Response #1-2**

We have been in the process of tightening down the software installation process for MAXIS production. The current process and controls are that only five MAXIS staff have the security authorization necessary to complete software installs in the MAXIS production region. There are technical staff with the security to install Production system tables; however, these are completed in coordination with Production Control staff. Software that is to be installed into MAXIS production is tested before it is installed in order to ensure that it meets the specifications of the change authorization and that the integrity of the MAXIS Production region functionality is retained. Random reviews of MAXIS production source code are conducted by the technical unit.

Some of these controls are new and have been implemented since the time of the Legislative Auditor's review. These controls do not fully protect against intentional fraud on the part of a programmer or other person. We agree that additional controls are necessary. To this end, we will review all methods by which programmers or other staff could make unauthorized changes to MAXIS software and in each instance, we will install a dual authorization so that at minimum collusion would be necessary to accomplish fraud.

A complete report on these new controls will be provided in future quarterly progress reports.

**Persons Responsible**

Linda Ady  
Tom Rowland

**Estimated Completion Date**

October 1993

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**Audit Finding #2**

The department does not have procedures for retrieving un-accessed Family Support (CFDA #93.020) benefits issued through the electronic benefit system.

**Audit Recommendation #2-1**

The department should work with Ramsey County to identify benefits outstanding for more than ninety days.

**DHS Response #2-1**

The department has identified aged benefits and established an electronic file of approximately 12,000 transactions representing \$350,000. The MAXIS software to process these transactions has been programmed and tested. During the evening of May 27, 1993, the batch job will run to age these transactions on the MAXIS database and update the SWA Input Document.

**Persons Responsible**

Herb Cashdollar

**Estimated Completion Date**

May 28, 1993

**Audit Recommendation #2-2**

The department and Ramsey County should ensure that refunds are properly made to the federal and state accounts.

**DHS Response #2-2**

The MAXIS software that identifies EBT benefits outstanding for more than ninety days, ages the benefits, and allocates refunds is scheduled to run every month after cash cut-off, beginning on May 21, 1993.

**Audit Recommendation #2-2, Continued**

**Persons Responsible**

Herb Cashdollar

**Estimated Completion Date**

May 28, 1993

**Audit Finding #3**

The department did not collect certain funds due to the federal and state Family Support Program accounts.

**Audit Recommendation #3**

The department should pursue collection of all cash recovery transactions miscoded by county agencies and credit the appropriate Family Support accounts.

**DHS Response #3**

The MAXIS code (49) incorrectly used by some counties has been disabled so that the error cannot occur in the future. All counties that incorrectly used the code before it was disabled have been contacted by telephone and instructed on how to correct the error on MAXIS. All errors have been corrected and accounts properly credited. There were more than 500 instances corrected, representing about \$101,000. Now, code 49 can only be system-generated to adjust automatically claims with balances less than \$1.00.

**Persons Responsible**

Herb Cashdollar

**Estimated Completion Date**

Completed