DEPARTMENT OF HUMAN SERVICES

*SELECTED SCOPE FINANCIAL AUDIT

Administration of MAXIS and Residential Care

FOR THE YEAR ENDED JUNE 30, 1992

MARCH 1994

*See description of this new report style in the following Note to Report Readers.

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

93-63

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

Note to Report Readers

The Financial Audit Division introduces a new report style in nine audits being released during the Summer of 1993. The division plans to use the new style on a trial basis and will later evaluate report readers' preferences. The new style replaces the traditional format of reporting only on an "exception basis." In the traditional format, auditors commented primarily on problems which the reports presented as findings and recommendations. Readers may have grown accustomed to using report length as a gauge for the extent of problems. With the new style, report length is not a reliable indicator of the extent of audit findings. These new reports contain more extensive factual and analytical data. Report readers should find this additional information useful. The division has attempted to make the new report style easy to identify and understand.

Identifying the New Report Style

The division distinguishes the new style reports by printing the report title in red ink, rather than the black ink used for traditional financial audit reports. All Financial Audit Division reports continue to use the gray-colored report covers. The report title shows through the window cutout on the gray cover. The inside cover page highlights the new style. This Note to Report Readers follows the inside cover page and describes the new style.

New Features

The new reports devote a separate chapter to each major audit area. Chapters contain detailed information on the audit scope, analytical results, and conclusions. Each chapter also elaborates on applicable management practices and processes. Financial auditors have always accumulated this additional information, but traditionally retained the information in the working papers and did not publish it as part of the final report.

To provide for a quick understanding of the audit results, the chapter structure allows readers to visually scan for items of interest or concern. Readers should look for the following features in each chapter:

1. The audit conclusions summarized at the beginning of the each chapter,
2. Tables and charts highlighting important financial information, and
3. Any audit findings and recommendations.

Aside from the format for presenting audit findings and recommendations, the new report style preserves the other elements of the traditional financial audit report. Report readers should recognize these other standard elements of the traditional reports: (1) Scope and Conclusions Letter, (2) Table of Contents, (3) Introduction, (4) Agency Response, and (5) an inserted Report Summary (although the new style uses a modified version of the report summary). Audit findings continue to be numbered and presented in bold-faced print. Recommendations are highlighted in italics. However, the Audit Findings and Recommendations are embedded in the appropriate report chapters, rather than aggregated in a separate report section.

Reasons for the Change

The traditional financial audit reports have several limitations. The reports often tend to be very technical documents. Also, reports with few findings communicate the audit results in a very abbreviated manner. Exception-based reporting requires auditors to either present audit findings or to simply state that the audit revealed no findings. This reporting style does not allow for positive conclusions or analysis of areas without audit findings.

The division was concerned about the risk that some report readers may have difficulty understanding audit results. It had begun to narrow its audit scope for several larger, more complex agencies. These "selected scope" audits were an effort to stretch scarce staff resources into as many audits as possible. But the division was particularly concerned that readers would project the audit results from a few selected programs to conclusions about an entity's overall financial management. The new report style more effectively presents the audit scope within the context of the entity's total operations.

Exception-based reporting does not fully accommodate the extent that auditors must exercise professional judgment. Auditors must interpret laws and policies. They must weigh the costs of control deficiencies against the benefits of preventing potential problems. It is particularly challenging to audit entities that are exempt from standard state policies and regulations. For those audits, the auditors must judge whether the entity has adopted "reasonable" and prudent practices for a public entity. Many issues require difficult decisions about whether or not an audit finding exists. Under the traditional report format, the auditor presents comments only when concluding that a finding exists. The new report style removes this limitation. Although the auditor's judgment remains important, the new report style also allows readers to reach their own conclusions.

Audits with the New Report Style

Look for the new report style in the audits of the following nine entities.

Department of Corrections	Department of Human Services
State University System	Community College System
Department of Natural Resources	University of Minnesota Medical School
Minnesota State Lottery	Environment and Natural Resources Trust Fund
State Public Defender	

Eight of the nine are "selected scope" audits covering only some programs of the entity. The Minnesota State Lottery is an entity-wide audit limited to testing for legal compliance with state laws and regulations.

Share Your Comments

If you have comments about the new report style, please contact the Financial Audit Division at (612) 296-1730.

DEPARTMENT OF HUMAN SERVICES

SELECTED SCOPE FINANCIAL AUDIT
FOR THE YEAR ENDED JUNE 30, 1992

Public Release Date: March 4, 1994 No. 93-63

AGENCY BACKGROUND

The Department of Human Services administers the public welfare system to meet the needs of Minnesota residents. Maria Gomez was appointed Commissioner of the department on December 13, 1993. Natalie Steffen served as Commissioner from January 1991 to December 12, 1993.

SELECTED AUDIT AREAS

- *Appropriation Control for the State Operated Residential Care for the Special Needs Program*

The Department of Human Services complied with appropriation laws when distributing General Fund appropriations to the Residential Care Facilities. The General Fund appropriation is distributed to the residential facilities in four expenditure categories: salaries, current expenses, special equipment, and repairs, replacements and betterment's.

- *Administration of the Development and Operating Costs of the State's Centralized Benefit Issuance System (MAXIS)*

The department failed to contain spending within the resources available for the MAXIS computer project. Spending continually escalated and ultimately costs surpassed $100 million for developing and operating the system from 1987 to 1993. Sponsoring federal agencies reimbursed the state for $62 million of these costs. The department, however, initially did not secure sufficient state funds to support the project. Problems surfaced in financing the state share of operating costs in fiscal year 1992. We estimate that for fiscal years 1992 and 1993 the department incurred a deficit of $11 million in state funds. The department was able to reduce this deficit by $3 million when the Department of Finance agreed to waive the requirement to repay most federal indirect cost reimbursements to the state General Fund.

During the 1993 session, the Legislature provided a deficiency appropriation of $13.2 million for MAXIS operations. After final settlement with the sponsoring federal agencies , we believe that about $5 million remains from the deficiency appropriation. We do not believe the department has authority to retain the $5 million of remaining funds and should return them to the state General Fund.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General and the Legislative Audit Commission. Finding #l of Chapter 3 discusses the department's failure to contain its spending within its available resources. We consider the deficit of $8 million in state funds a material instance of noncompliance with Minn. Stat. Section 10.17, spending in excess of appropriated funds.

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

STATE OF MINNESOTA
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Maria Gomez, Commissioner
Department of Human Services

Audit Scope

We have conducted a financial related audit of selected activities of the Department of Human Services as of and for the year ended June 30, 1992. Our audit was limited to only a portion of the Department of Human Services, as discussed in the following paragraphs and in the Introduction.

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 selected audit areas of the Department of Human Services, are free of material misstatements.

Our audit was limited to a review of the following financial activities, as shown in the Introduction.

- Appropriation control for the State Operated Residential Care for the Special Needs Program--Chapter 2.
- Administration of the development and operating costs of the state's centralized benefit issuance system (MAXIS)--Chapter 3. Our review included selected analyses from the inception of MAXIS in 1987 through fiscal year 1993.

For each of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk at March 31, 1993. 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 and regulations. However, our objective was not to provide an opinion on overall compliance with such provisions.

Statewide Financial Audit

We issued a separate audit report to the Department of Human Services for the year ended June 30, 1992. This audit included the material departmental financial activities related to the State of Minnesota's annual financial statements and the federal programs. The audit report was dated June 11, 1993.

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 and regulations. 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 applicable 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.

Conclusions

Our study and evaluation disclosed the conditions discussed in Chapter 3, findings 2 and 3, involving the internal control structure of the Department of Human Services' financial administration of the MAXIS system. We consider these conditions to be reportable conditions under the 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 element does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe that the reportable conditions described above in Chapter 3, findings 2 and 3, are material weaknesses.

We also noted certain matters involving the internal control structure and its operation that we reported to the management of the Department of Human Services on January 20, 1994.

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 discussed in Chapter 3, finding 1.

The results of our tests indicate that, except for the issues discussed in Chapter 3, findings 1 and 4, and the above paragraph, 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.

Pursuant to Minn. Stat. Section 3.975, this report shall be referred to the Attorney General. Finding 1 of Chapter 3 discusses an instance of material noncompliance with state appropriation law. Minn. Stat. Section 3.975 requires us to report such instances to the Attorney General and the Legislative Audit Commission.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Human Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 4, 1994.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of fieldwork: October 31, 1993

Report signed on: February 25, 1994

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

John Asmussen, CPA	Deputy Legislative Auditor
Renee Redmer, LPA	Audit Manager
Charlie Gill	Auditor-in-Charge
Mary Jacobson, CPA	Auditor
Karen Klein	Auditor
Dale Ogren, CPA	Auditor
Carl Otto, CPA	Auditor
Pat Ryan	Auditor
Christina Weiss	Auditor

Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Human Services on January 20, 1994:

Maria Gomez	Commissioner
Charles Schultz	Deputy Commissioner
John Petraborg	Assistant Commissioner - Family Self-Sufficiency Services
Dennis Erickson	Assistant Commissioner - Finance and Management Services
Linda Ady	Director - MAXIS Operations

Chapter 1. Introduction

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.

Maria Gomez was appointed Commissioner of the department by Governor Carlson on December 13, 1993. Natalie Steffen served as Commissioner from January 1991 to December 12, 1993. 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
- 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 as of September 5, 1992. Figure 1-1 shows departmental expenditures for State Operated Residential Care (state facilities), MAXIS Administration, grants and aid, and other expenditures for the year ended June 30, 1992.

The department owned and operated about 36 residential facilities in the State of Minnesota at June 30, 1992. The facilities include regional treatment centers, state nursing homes, community group homes, waivered services group homes and rehabilitation centers. The facilities are for the treatment of persons with mental illness, developmental disabilities, chemical dependency and the elderly with complex medical problems.

The department administers the revenue system for the cost of care related to the state regional treatment centers and community group homes. For fiscal year 1992, cost of care revenue was $93,839,339. We audited the cost of care system as part of our 1992 Statewide Financial Audit.

The department administers the state's centralized benefit issuance system (MAXIS). The department's MAXIS system which processes recipient eligibility for various state and federal benefit programs was fully operational in December 1991. The state and federal government fund the administrative costs of operating the MAXIS system. Counties determine recipient eligibility and enter the required data on the state's centralized computer system.

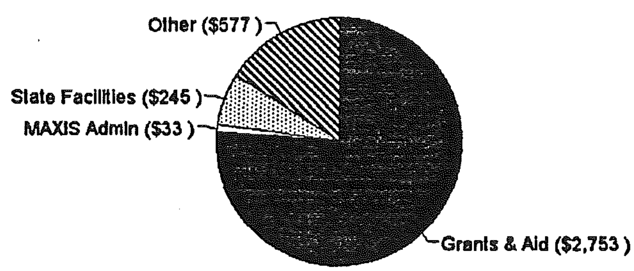
Department of Human Services

The department issues state and federal program benefit payments centrally in the issuance operations center in St. Paul. Food stamps (coupons) are also issued by the operations center for all counties except for Ramsey County. Ramsey County issuances are made using a separate electronic benefit issuance system. For fiscal year 1992, the state issued food coupons to recipients totalling $201,537,008. We also audited the benefit payments and food coupons during our 1992 Statewide Audit.

Figure 1-1

Human Services

FY92 Expenditures ($ In Millions)



Source: Statewide Accounting System as of September 5, 1992.

Chapter 2. Appropriation Control State Operated Residential Facilities

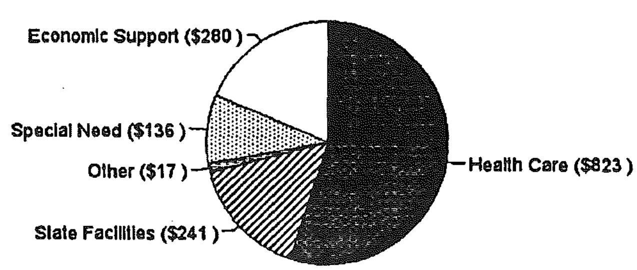
Chapter Conclusions

The Department of Human Services complied with appropriation laws when distributing General Fund appropriations to the Residential Care Facilities. The General Fund appropriation is distributed to the residential facilities in four expenditure categories: salaries, current expenses, special equipment, and repairs, replacements and betterments. The facilities cannot transfer funds between categories without central office and Legislative Advisory Commission approval.

General Fund Appropriation Control

For the fiscal year ended June 30, 1992, the General Fund appropriation for the Department of Human Services, including the amount for State Operated Residential Care, was nearly $1.5 billion. The General Fund appropriation for State Operated Residential Care was $241 million. This appropriation is for the operating costs of the state owned residential facilities and the administrative costs of central office, Residential Facilities Management. Figure 2-1 shows the relationship between the components of the Department of Human Services appropriations.

Figure 2-1
Human Services
FY92 General Fund Appropriations
(In $ Millions)



Source: State of Minnesota Appropriation Laws.

Department of Human Services

The appropriation for State Operated Residential Care provides funding for the treatment of persons with mental illness, developmental disabilities and chemical dependency. It also provides funds for the care of elderly persons who have complex medical conditions and challenging behaviors requiring nursing home settings. The objective of state operated services is to provide a foundation for successful integration into community life. This is accomplished by assisting individuals in the least restrictive setting and for the shortest length of stay possible.

As shown in Table 2-1, the Department of Human Services operates several facilities throughout the State of Minnesota. As of June 1992, the department administered the following residential facilities.

Table 2-1
State Operated Residential Care Facilities
June, 1992

Regional Treatment Centers
- Anoka Regional Treatment Center
- Brainerd Human Services Center
- Cambridge Human Services Center
- Faribault Regional Treatment Center
- Fergus Falls Regional Treatment Center
- Moose Lake Regional Treatment Center
- St. Peter Regional Treatment Center
- Willmar Regional Treatment Center

Waivered Services Group Homes
- Moundsview-Woodcrest
- Moundsview-Belle Lane
- Brahm
- Dodge Center
- Faribault
- Farmington
- Rochester

Rehabilitation Centers (DAY HAB)
- Moose Lake Day Program
- Austin Day Program
- Virginia Day Program
- Faribault Day Program
- Duluth Day Program

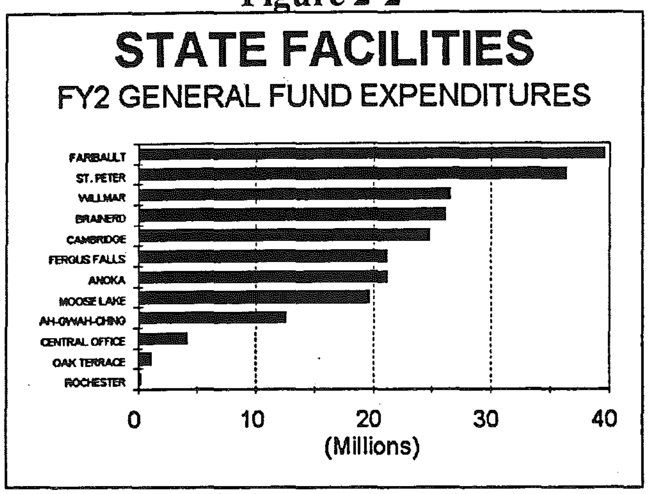
State Operated Community Group Homes (SOCS)
- Moose Lake
- Pine City
- Redwood Falls
- Rochester
- Lakeville-Hershey
- Lakeville-Jonquil
- Austin
- Eden Prairie-Valley View Road
- Eden Prairie-Chatham Way
- Bloomington
- Blaine
- Kasson
- Faribault
- Duluth
- Virginia

State Nursing Home
- Aw-Gwah-Ching Nursing Home

The costs of the residential facilities are initially funded by General Fund appropriations. The department then recovers most of these costs through reimbursement from the Medicaid Program. The department's Reimbursement Division administers rate setting, billings and collections for the patients' care provided by the various residential facilities.

Figure 2-2 shows the distribution of the $233 million expended by the residential facilities and central office in 1992. Expenditures for the SOCS, DAY HABS, and the waivered services group homes, are included with the respective administering regional treatment centers in Figure 2-2.

Figure 2-2



Although Ah-Gwah-Ching is the main state nursing home, the centers in Faribault and Brainerd also provide care for some nursing home residents. Oak Terrace Nursing Home closed in 1991 and the Rochester center closed several years ago. Unemployment compensation payments are still budgeted and disbursed for employees who once worked at those facilities.

The central office regulates appropriation and budget control for the regional treatment centers and the nursing home. It distributes funds to the facilities based on specific formulas for the four expenditure categories (salaries, current expenses, special equipment, and repairs and betterments). A small percentage of the initial appropriation is reserved at the beginning of each fiscal year for emergency purposes.

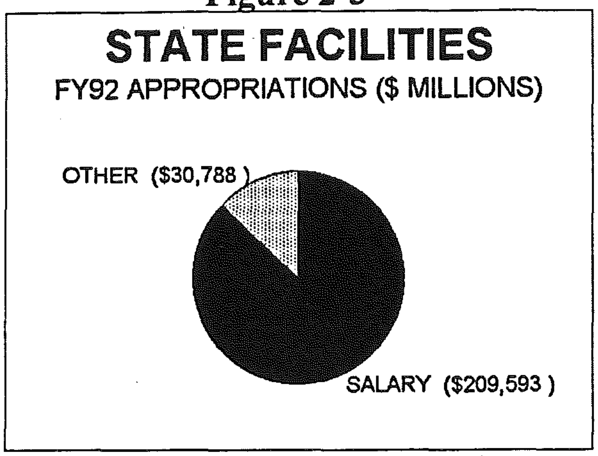
We analyzed and reviewed the appropriation and budget control for State Operated Residential Care. We focused on the controls over the distribution and transfer of appropriation funds to the regional treatment centers and the state nursing home. We reviewed the distributions to the individual facilities and amounts budgeted for the four expenditure categories. We determined the propriety of the transfers between facilities and expenditure categories. We specifically reviewed the residential facilities budget finance plans and appropriation transfer documents.

We concluded that the appropriation for the residential facilities was properly distributed. We also found that distribution and transfer transactions were adequately documented, properly approved and appropriately recorded on the state's accounting system.

Salary Allocation Control

Salary allocations represent the largest budget and expenditure category for State Operated Residential Care. We reviewed the allocation process to ensure proper control over salary expenditures. Figure 2-3 shows the allocation of appropriated funds for fiscal year 1992.

Figure 2-3



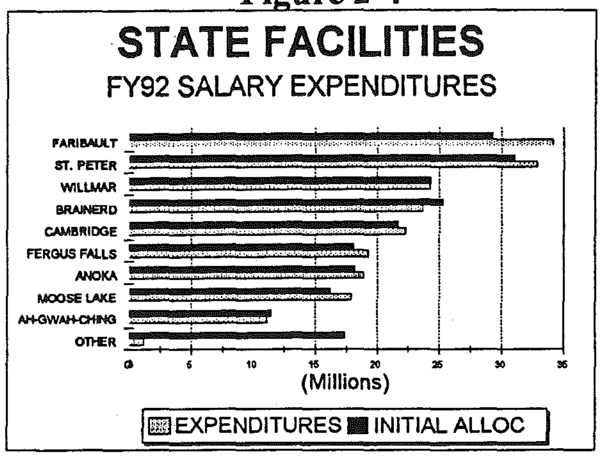
In 1992 the department expended $205 million from the salary allotment of $209 million. The balance of $4 million was carried over to the 1993 year for expenditure. Expenditures included $3.8 million for contractual services for nonstate employees. Historically, the department has included both state employee services and contractual services in its budget request for salaries. Contract agreements include professional services such as psychiatry, psychology, dentistry, general practitioner, occupational therapy, and physical therapy. Agreements also include nonprofessional services such as maintenance, fire service, rent, consulting fees, and garbage collection.

Figure 2-4 shows the initial allocation and the actual salary expenditures for the residential facilities. Final expenditures vary from the initial allocation because the department is authorized to transfer salary funds between facilities during the fiscal year. Figure 2-4 shows a significant variance between the allocation and expenditure amount in the "other" category. This allocation includes salary supplements, employee mitigation and layoff allocations, and funds set aside for the development of the State Operated Community Services (SOCS) Program. The central office transferred amounts to the respective facilities for these expenditures.

Department of Human Services

The Anoka Regional Treatment Center budget and actual expenditures include $1.3 million related to statewide system support, including salaries for the medical directors and other positions that serve all the residential facilities.

Figure 2-4



We gained an understanding of the salary allocation and budget process for the residential facilities. We documented the method used by the department to allocate funds to the facilities. We obtained information about staffing levels and the employee/patient ratios for the various facilities that are used in the budget process. We analyzed and reviewed the specific budgetary controls over salary allocations for the facilities. In addition, we analyzed trends between the facilities. We independently calculated certain ratios and compared to the department standards. We investigated variances between our calculations and the department standards. We found satisfactory explanations for the variances that we reviewed. In conclusion, the department adequately controlled the salary budget process for the residential facilities.

Salary Allocation Process

As an initial step in the salary allocation process, the department estimates the patient population for each program at each facility. The department relies heavily on historical trends for these estimates. In recent years, however; the Governor and the Legislature have recommended that the department downsize the number of facilities and the patients served due to state budget restraints. To accommodate this downsizing, the department is attempting to integrate clients into the community by utilizing group homes, including State Operated Community Services (SOCS) and waivered services group homes.

Each regional treatment center has a number of programs designed to meet the needs of its patients. Depending on the patient population size, each program requires a predetermined number of staff needed to fulfill the objectives of the program. Standard staffing and patient ratios are used by the department as a basis for calculating salary allocations. Table 2-2 shows the actual staffing and patient ratios for programs administered by the residential facilities in 1992. We calculated these ratios from data accumulated in the central office.

Table 2-2
Residential Facilities Programs
Average Ratios of Employees to Patients
Fiscal Year 1992

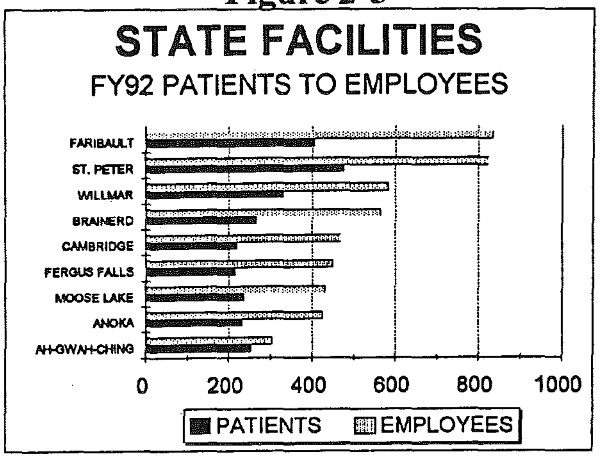
Program	Average Ratio
General Support (GS)	0.560
Developmental Disability (DD)	1.474
Mental Illness (MI)	1.152
Nursing Home (NH)	0.716
Security Hospital (SH)	1.203
Psychopathic Geriatric (P. GER)	0.696
Adolescent Unit (Adol.)	1.611
Protective Component Unit (PCU)	3.333
State Operated Community Service (SOCS)	1.191

We found the actual staffing ratios to compare with the standards established by the department. Standards are used for salary allocations for the Developmental Disability and Mental Illness Programs. The Legislature set standards for some programs several years ago. General support and group homes staffing is variable based on the needs of the facilities.

We analyzed employee salaries and patient populations for fiscal year 1992. Our analysis concentrated on programs at the regional treatment centers and the nursing home. We calculated the average salary by program within the facilities, the average employee and patient ratios, and the average salary per patient.

Figure 2-5 compares patient populations to employees by facility. The ratios vary depending on the mix of programs offered by facility.

Figure 2-5



Salary Allocation Used to Support Other Programs

The department has provided salary support from the regional treatment centers to waivered services group homes and the medical clinics operated by the state. We have discussed the propriety of providing state support for these facilities in prior audits of the regional treatment centers. The department has responded that it is attempting to resolve the funding issues related to these operations.

Minnesota statutes establish the waivered services group homes as self-sufficient activities. However, the revenues collected for patient care in 1992 were not sufficient to cover the costs of these operations. Currently, there are three homes in Cambridge and four in Faribault. The state appropriations from the centers are used to fund the additional services of the waivered homes. The additional funds needed are transferred from the salary allocation. In fiscal year 1992, the homes at Cambridge required $100,520 from the salary appropriation and the homes at Faribault required $187,875. We have addressed concerns related to the administration of the group homes financial activities in separate audits of Cambridge and Faribault. Correspondence from the department shows that it is in the process of resolving these issues.

The two medical clinics at Faribault and Cambridge are not operating independently from the regional treatment centers. This is in violation of federal cost reimbursement policies for Medical Assistance. Each clinic has two employees, a doctor and a receptionist, who are paid from funds generated at the clinic. All other employees working at the clinic are employees of the respective center and are funded from the salary allocation. We also discussed this issue in the Faribault Regional Treatment Center audit report issued in November 1992. The department and the centers are exploring other fiscal structures and methods of funding the activities of the clinics.

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Chapter 3. Administration of the Development and Operating Costs of MAXIS

Chapter Conclusions

The Department of Human Services failed to contain spending within the resources available for the MAXIS computer project. Spending continually escalated and ultimately costs surpassed $100 million for developing and operating the system from 1987 to 1993. Sponsoring federal agencies reimbursed the state for $62 million of these costs. The department, however, initially did not secure sufficient state funds to support the project. Problems surfaced in financing the state share of operating costs in fiscal year 1992. We estimate that for fiscal years 1992 and 1993 the department incurred a deficit of $11 million in state funds. The department was able to reduce this deficit by $3 million when the Department of Finance agreed to waive the requirement to repay most federal indirect cost reimbursements to the state General Fund.

During the 1993 session, the Legislature provided a deficiency appropriation of $13.2 million for MAXIS operations. After final settlement with the sponsoring federal agencies, we believe that about $5 million remains from the deficiency appropriation. We do not believe the department has the authority to retain the $5 million of remaining funds and should return them to the state General Fund.

Because of delays in receiving federal reimbursements, the project began experiencing cash flow problems during the development phase in December 1991. To resolve the cash flow problems, the department had the Department of Finance remove an edit that limited spending to resources deposited in the statewide accounting system. As a result, Human Services could continue to make expenditures from the MAXIS development account in anticipation of future federal reimbursement.

The department did not, however, have sufficient state funds for the operating phase that began in January 1992. This shortage in state funds contributed to problems the department experienced in three other areas.

- *It paid a significant amount of operating costs from the development account in fiscal year 1992. Because the Department of Finance had removed the spending edit from the development account, Human Services did not have to resolve the deficit in operating costs immediately.*
- *It withheld payments on large bills for state computer services.*
- *It did not repay the General Fund for the indirect cost reimbursements obtained from federal agencies. The Department of Finance exempted the department from these payments through fiscal year 1992, but it currently owes the General Fund about $500,000 for fiscal year 1993.*

Recent projections show that the department has sufficient resources to operate the MAXIS system for fiscal year 1994.

Department of Human Services

Background of MAXIS System

The Department of Human Services administers the state's major public income support programs in partnership with Minnesota's 87 counties. The Minnesota Legislature authorized the MAXIS computer system project in 1987. MAXIS assists counties in determining program eligibility for about 500,000 clients annually. The system is used to issue approximately $3 billion in recipient benefits each year. The centralized system allows consistency in administering programs and helps detect program abuse. MAXIS is used for various programs and interfaces with the other systems as shown in Table 3-1. MAXIS processed cases for most of these programs beginning in September 1990.

Table 3-1
Programs and System Interfaces Supported By MAXIS

Programs
- -Family Support (Aid to Families with Dependent Children)
- -Food Stamps
- -General Assistance
- -Work Readiness
- -Minnesota Supplemental Aid
- -Emergency Assistance
- -Medical Assistance
- -General Assistance Medical Care
- *-Minnesota Care
- *-Minnesota Family Investment Plan

System Interfaces
- -Child Support System
- -Medical Management System
- -Social Security
- -Internal Revenue Service

*Note 1: These programs are scheduled for implementation in May 1994.

MAXIS provides recipient eligibility information to the Medicaid Management Information System (MMIS), forming the basis for approving medical claims from providers throughout Minnesota.

The counties are the direct contact points for clients to apply for benefit programs. County workers determine and authorize client eligibility through the MAXIS system. After eligibility is determined, a client receives benefits that are processed and mailed from the department's issuance operation center. The department administers the centralized issuance operations center in St. Paul. The center prints and mails benefit checks, client notices, vendor payments, and other documents to clients, counties, and vendors. The center also distributes food stamps to recipients in Minnesota counties except for Ramsey County that uses an electronic benefit issuance system. Over a million pieces of mail are sent monthly by the center.

Department of Human Services

We summarized the financial activity recorded in the statewide accounting system (SWA) for the MAXIS accounts from fiscal years 1987 to 1993. We analyzed the state appropriations and federal financial participation amounts approved by the various funding agencies. We updated our analysis of the financial activities for these years in January 1994. Based on available information and our analyses, we calculated the deficit balance related to the operating phase of the MAXIS project. In addition, we sought factors that may have caused the department's deficit spending. We reviewed other financial information and recipient caseload statistics. We also interviewed various staff in the Departments of Human Services, Administration and Finance.

The Department of Human Services received both state appropriations and federal funds for the administrative costs of the MAXIS system. The department recorded the administrative costs to develop, modify and operate the MAXIS system in two main accounts in the statewide accounting system (SWA): development account and operating account. The development account was supposed to be used for the initial development costs incurred from the inception of MAXIS in 1987 to its final implementation in December 1991. The system was certified by the federal government as operational on December 31, 1991. This certification date was particularly significant, because the department was eligible for enhanced federal reimbursements up to 90 percent for development costs. After December 31, 1991, the federal agencies considered MAXIS costs as operating costs that were eligible for a lower reimbursement rate of about 50 percent.

When recording costs on the statewide accounting system, the department was not careful to account for operating costs separately from development costs. It continued to charge some operating costs to the development account through November 1992. The department also charged some general costs of operations to the operating account as early as 1990. The department assigned several different accounting staff to record MAXIS costs since its inception. As a result, costs were not consistently charged to the statewide accounting system. The department maintained quarterly claims showing the costs submitted to the federal government for reimbursement. Although quarterly claims and federal drawdown records were maintained by the department, it did not summarize its financial activity for analysis and projection purposes. The department accumulated its cost data related to the development phase from 1987 to December 31, 1991. However, the department did not aggregate its financial data for operations from 1990 to 1993 for analysis and projection. The department did not properly monitor its financial resources or analyze its financial history to project costs and the necessary resources. We believe that the poor condition of the department's financial records contributed to its deficit spending problems.

Table 3-2 shows that for the fiscal years 1987 through 1993, the Department of Human Services expended approximately $101 million on the MAXIS system development and operations. The department documented $50.6 million of these costs for the development phase that ended December 31, 1991. The other $50.5 million was considered for operating costs. The General Fund paid $4.4 million in indirect costs which is included in the total.

Table 3-2
Summary of MAXIS Administrative Costs
Fiscal Years 1987 to 1993

MAXIS Accounts	1987	1988	1989	1990	1991	1992	1993	Total
Personnel Services	$247,957	$673,117	$1,628,000	$2,813,578	$5,813,082	$6,053,854	$4,189,449	$21,419,037
Computer Services	99,597	246,084	929,766	1,489,969	8,255,567	13,288,295	13,585,037	37,894,315
Contractual Services	27,639	282,782	968,323	1,948,459	3,636,276	5,548,689	3,124,366	15,536,534
Capital Equipment					1,166,085	1,916,880	2,054,599	5,137,564
Grants to Counties-Admn.	35,659	17,589	21,643	69,542	2,204,022	2,238,622	1,601,765	6,188,842
Miscellaneous Operating Expenses	61,905	62,219	654,508	629,354	1,538,538	3,741,365	3,480,009	10,167,898
Total MAXIS Accounts	472,757	1,281,791	4,202,240	6,950,902	22,613,570	32,787,705	28,035,225	96,344,190
Indirect Costs - General Fund		88,094	291,718	620,522	1,041,212	1,212,490	1,188,209	4,442,245
Total Administrative Costs	$472,757	$1,369,885	$4,493,958	$7,571,424	$23,654,782	$34,000,195	$29,223,434	$100,786,435

Source: **MAXIS Accounts**: Development and operations expenditures and accrued liabilities for each fiscal year recorded on the statewide accounting system as of October 31, 1993. Expenditures paid from the operating account of $680,671 for Minnesota Care in 1993 are not shown above. Expenditures for postage paid and collected from other state agencies is also excluded from the above costs.

Indirect Costs: Indirect costs paid by the General Fund are from records maintained by the Department of Human Services.

Capital Equipment: Equipment of $8 million was purchased in 1990 with proceeds from a loan authorized by the Department of Finance. Loan principal and interest payments made for the equipment purchase are shown in fiscal years 1991 to 1993.

Department of Human Services

The largest expenditure categories included personnel services and computer services. Computer services included mainly services provided by the Department of Administration's InterTechnologies Group. Our review showed continual problems in the Department of Human Service's estimating and paying the costs of the InterTechnologies Group.

The Department of Human Services received state appropriations and federal funds to develop and operate the MAXIS system. Funding sources totaled $106 million for fiscal years 1987 to 1993. Table 3-3 presents the funds provided by the federal and state governments.

Table 3-3
Summary of MAXIS Resources
Fiscal Years 1987 to 1993
(in Millions)

	Amount	Total
Federal Funds:		
Development and Operations	$59.0	
Indirect Cost Reimbursements	3.0	
Total Federal Funds	$62.0	$62.0
State Appropriations:		
Regular	$26.3	
Deficiency	13.2	
Indirect Costs	4.5	
Total State Appropriations	$44.0	44.0
Total Funding Sources		$106.0

Source: Statewide Accounting System Reports.

We believe that the balance of $5 million remaining in the 1993 fiscal year operating account is due to the General Fund. This amount represents the unneeded portion of the state deficiency appropriation of $13.2 million.

Indirect cost reimbursements of $3 million collected from the federal government for fiscal years 1987 to 1993 were not returned to the General Fund, but were kept in the MAXIS accounts for future operations. The Department of Finance authorized Human Services to keep the reimbursements for fiscal years 1987 to 1992. However, Finance did not grant a waiver to Human Services for fiscal year 1993 for reimbursements of about $500,000.

Analysis of Financial Activity for Development

The Department of Human Services documented costs of about $50 million to develop the MAXIS computer project from it inception in 1987 to December 31, 1991. These costs include about $2 million for indirect costs paid from the General Fund. The department allocated $16 million of its state appropriations to the development phase and the federal government provided $34 million.

Department of Human Services

In 1987, the federal government authorized an initial development phase spending level of $15 million. The department expanded the initial MAXIS computer project to include new programs and system interfaces. By 1993, approved federal project costs totalled $50 million. The department attributes the growth in project costs mainly to the system modifications for additional programs such as Medical Assistance eligibility and higher than anticipated costs of computer processing provided by the Department of Administration InterTechnologies Group.

Table 3-4 shows our analysis of the advanced planning documents approved by the federal government for the state and federal shares of the MAXIS project development costs.

Table 3-4
Advanced Planning Documents
State and Federal Financial Participation
For MAXIS Development Phase

Programs	January 1987	March 1989	December 1989	March 1991	August 1993
Family Support (AFDC)	$6,633,790	$14,$529,909	$18,870,945	$19,075,936	$18,875,146
Food Stamps	4,960,000	7,325,805	9,138,552	9,865,047	9,150,998
Medical Assistance	______	3,009,296	3,170,933	5,091,401	5,470,094
Total Federal	$11,593,790	$24,865,010	$31,180,430	$34,032,384	33,496,238
State's Share and State Only Program	3,090,110	10,338,976	13,626,572	16,036,394	17,079,583
Total	$14,683,900	$35,203,986	$44,807,002	$50,068,778	$50,575,821

Source: Advanced planning documents approved by the federal government (The August 1993 amounts are from the Modified Cost Allocation Plan.)

The department encountered cash flow problems during the development phase in December 1991. This was due to delays in receiving the federal reimbursements for the development phase. The department ultimately negotiated final cost reimbursements of about $4.5 million with the sponsoring federal agencies in 1993. After the final negotiations, the costs of the development phase were fully funded by federal reimbursements and state appropriations.

The following federal agencies participated in the funding of the development phase at different percentages of costs from 1987 to 1993.

- U. S. Department of Health and Human Services, Administration of Children and Families (ACF),
- U. S. Department of Health and Human Services, Health Care Financing Administration (HCFA),
- U. S. Department of Agriculture, Food and Nutrition Services (FNS).

Department of Human Services

These agencies approved various levels of participation in development costs ranging from 50 percent to 90 percent. The federal government's overall financial participation averaged 70 percent of the total costs for the development phase.

Table 3-5
Development Phase
Summary of Authorized Federal Financial Participation
For the Period 1987 through December 31, 1991

Program and Federal Agency	90% FFP	75% FFP	63% FFP	50% FFP	Totals
Family Support (AFDC): Dept. of Health and Human Services Administration of Children & Families (ACF)	$14,068,365			$4,806,781	$18,875,146
Medical Assistance: Dept. of Health & Human Services Health Care Financing Administration (HCFA)	3,081,173	$35,087		2,353,834	$5,470,094
Food Stamps: Dept. of Agriculture Food & Nutrition Services (FNS)		5,837,644	251,885	3,061,469	$9,150,998
Total Federal Financial Participation	$17,149,538	$5,872,731	$251,885	$10,222,084	$33,496,238

Source: Final advanced planning documents negotiated and approved by the federal government as of August 1993.

Analysis of Financial Activities for Operations

Our analysis of MAXIS operating costs showed that the Department of Human Services expended about $48 million from the MAXIS accounts for fiscal years 1990 to 1993. In addition, the General Fund paid about $2 million for indirect costs. The Department of Human Services allocated state appropriations of about $10 million to the MAXIS operating accounts for this same period. The department also collected its share of federal reimbursements for the operating phase. However, state appropriations were not sufficient to fund the level of operating activities for these fiscal years.

Department of Human Services

We estimate that the Department of Human Services incurred a deficit of $11 million in state funds for operating costs in fiscal years 1992 and 1993. The department was able to reduce this deficit by the $3 million in federal indirect cost reimbursements that it did not repay the General Fund. The Department of Finance waived the requirement to repay the General Fund indirect cost reimbursements for fiscal years 1987 through 1992; mainly for the development phase.

The Department of Human Services has documented various reasons for incurring higher costs than originally anticipated. The department attributes the deficit mainly to not including certain costs in its 1992-1993 biennial budget request to the Legislature. The department told us that it did not request funds to operate the issuance operations center in St. Paul and that it did not request funds for system modifications for programs such as Medical Assistance. Other costs were higher than originally anticipated such as the InterTech billings for computer processing. The department encountered difficulties in estimating the computer processing billings because it claims that the volume of transactions and beneficiary caseload was higher than originally anticipated.

In any case, the Department of Human Services did not have the authority to continue its spending beyond available resources. The department continued to spend funds for operations in fiscal years 1992 and 1993 when funds were insufficient to cover its anticipated costs. We believe that the department should have monitored its costs and resources to ensure that it did not incur a state deficit. The department should have contained its costs within its available resources or sought additional state funds early in 1992 when the shortage of state appropriations occurred.

The shortage in state funds for operations also contributed to problems the department experienced in the following areas:

- The Department of Human Services improperly charged operating costs to its development account to finance the deficit.
- It withheld payments on large bills for computer services.
- It did not repay the General Fund for the indirect cost reimbursements.

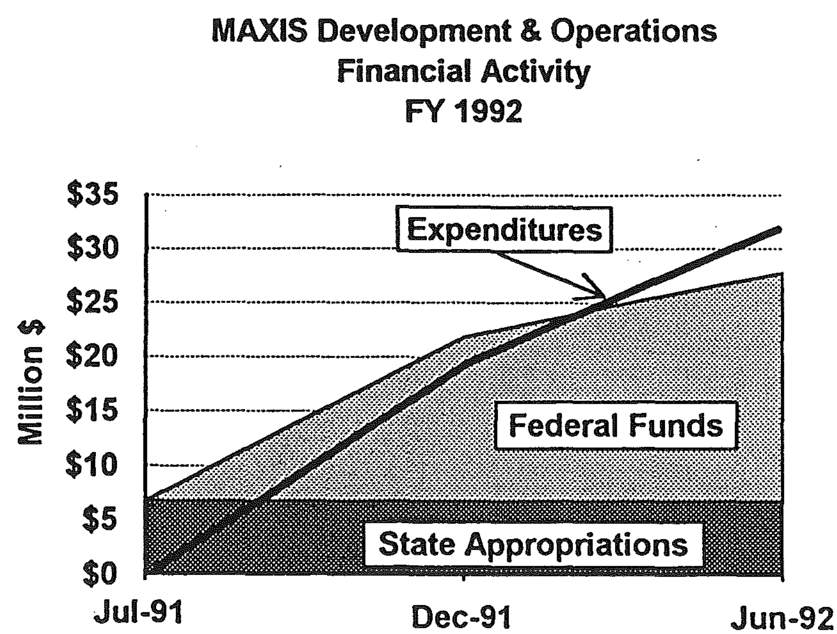
1. The department failed to contain spending within its resources available for MAXIS operations.

The Department of Human Services failed to properly analyze and project its financial resources and operating costs. Costs continued to escalate and ultimately the department incurred a net deficit of $8 million in state funds for operating costs in fiscal years 1992 and 1993. We consider the deficit a material instance of noncompliance with Minn. Stat. Section 10.17, spending in excess of appropriated funds.

Initially, the department did not secure sufficient state funds to support operations after the development phase ended. Problems surfaced in financing the state share of operations in fiscal year 1992. Costs continued to escalate and ultimately the department sought a deficiency state appropriation of $13.2 in June 1993. After final settlement with the sponsoring federal agencies, we believe that about $5 million remains in the 1993 operating account from the deficiency appropriation. We do not believe that the department has authority to retain the $5 million of remaining funds and should return them to the state General Fund.

Our analyses of the financial activities related to the MAXIS accounts for fiscal year 1992 shows a deficit of about $4 million. The department did not allocate sufficient state appropriations to fund its share of operating costs that year. Figure 3-1 shows that the $7 million state appropriation for 1992 development and operations and $21 million federal reimbursements were not sufficient to cover $32 million in expenditures for that year. Since federal participation decreased from an average of 70% during the development phase to about 50% for operations, we believe that the department was not realistic in its projections of resources related to its spending.

Figure 3-1

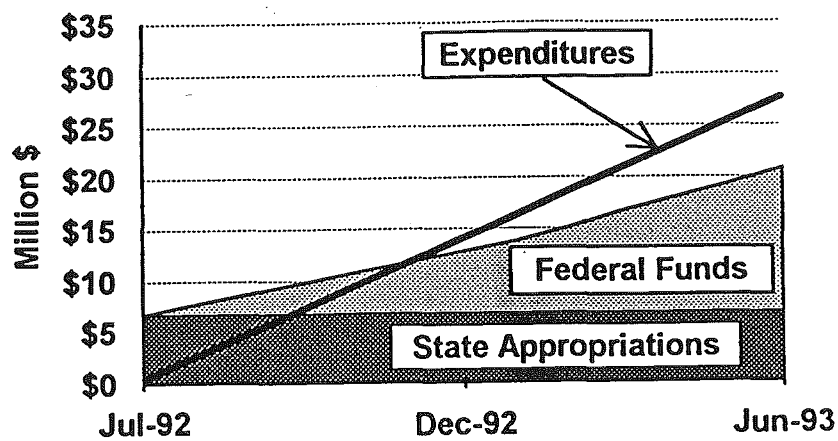


In 1993, the department again failed to properly estimate its available resources and contain its spending accordingly. As shown in Figure 3-2, the department's state appropriation was about $7 million and federal earnings totalled $14 million. However, it expended $28 million for fiscal year 1993 operations resulting in a deficit to the state of $7 million. We believe that the department could have better estimated its available resources based on its known state appropriation and the federal participation of about 50 percent.

Department of Human Services

Figure 3-2

MAXIS Operations Financial Activity FY 1993



The Department of Human Services did not request a deficiency appropriation until the 1993 Legislative session. The department ultimately requested a deficiency appropriation of $15.186 million for the 1992-1993 biennium. The Legislature provided a deficiency appropriation of $13.2 million for MAXIS operations. The 1993 deficiency appropriation, First Special Session, Chapter 1, Article 1, Section 2, Subd. 5 provided in part:

> ...the appropriation in Laws 1992, Chapter 292, Article 1, Sec. 2, Subd. 4, is increased by $13,286,000. Of this amount $13,186,000 is to cover MAXIS operating deficiencies in fiscal year 1993 and $100,000 is to be transferred to the department of administration policy office for an independent information system review of MAXIS....

Since the state provided a deficiency appropriation of $13,186,000 and the net deficit was about $8 million, we believe that about $5 million remains from the deficiency appropriation. After final settlement of development and operating costs with the federal agencies in 1993, the operating account has a $5 million cash balance for fiscal year 1993. We do not believe that the department has the authority to retain the $5 million and this amount should be returned to the state General Fund.

Recommendations

- *The department should take immediate action to ensure adequate funding for the costs of operating the MAXIS system. The department must contain its spending within its available resources.*
- *The department should return the $5 million balance in the fiscal year 1993 operating account to the state General Fund.*

2. The Department of Human Services improperly charged operating costs to its development account to finance the deficit.

The Department of Human Services charged operating costs to its development account to continue operations even though funds were not available to finance total obligations. The department ultimately incurred a deficit because state appropriations were not sufficient to cover the operating costs. Because of delays in receiving federal reimbursements, the MAXIS project began experiencing cash flow problems during the development phase in December 1991. To resolve the cash flow problems, the department had the Department of Finance remove an edit that limited spending to resources deposited in the statewide accounting system. As a result, Human Services could continue to make expenditures from the fiscal year 1992 MAXIS development account in anticipation of future federal reimbursements. The fiscal year 1992 operating account edit was not removed; therefore, spending for operations in that account was limited to available resources. However, with the spending edit removed from the development account, the department charged over $10 million in operating costs to it after the development phase had ended in December 1991. As a result the Department of Human Services did not have to resolve the deficit in operating costs immediately. It continued to incur operating costs for fiscal years 1992 and 1993, without sufficient funding.

The Department of Finance removed the spending edit for the development account in December 1991. The edit was initially removed to facilitate the delays in receiving federal reimbursements for the development phase. Human Services convinced Finance to remove the edit because it could ultimately receive more federal reimbursements. Removal of the spending edit in anticipation of federal receipts is approved by Finance for cash flow problems in accounts with federal funds. However, state agencies should have federal approvals to substantiate the amounts recorded as anticipated receipts to ensure that a deficit does not occur. Human Services recorded substantially more anticipated federal revenues than it was eligible to receive in the development account. Both the removal of the edit and recording a higher amount of anticipated federal receipts than it was eligible to earn, allowed the department to continue MAXIS operations without sufficient resources.

The Departments of Human Services and Finance ultimately failed to monitor the accumulation of negative balances in the development account to identify the final shortage of available funds. The department continued to charge operating costs to the account from January to November 1992 and the negative cash balance steadily increased from $2.7 million to $9.4 million. The negative account balance remained in the account until the state deficiency appropriation was received in June 1993. The Department of Human Services was not realistic in projecting its federal revenue and could have detected the shortage of state funds if it had properly monitored its earnings of federal revenues in relation to its expenditures for operations for fiscal years 1992 and 1993.

Recommendations

- *The Department of Human Services should monitor its spending and available resources. The spending edit in statewide accounting should be used with extreme caution to avoid any potential deficits.*
- *The department should properly record anticipated receipts in the statewide accounting system.*

3. The department is not properly estimating InterTech billings and is not paying its obligations promptly.

Our review of the financial activities for the MAXIS accounts disclosed that the department delayed paying its InterTech billings. It held InterTech billings from one to six months before making payments. The department did not properly estimate the costs of computer processing and delayed its payments due to insufficient funds.

Figure 3-3 shows the financial condition of the MAXIS administrative accounts considering the accounts payable to InterTech. The department had not paid InterTech billings on a regular basis during the three year period ending June 30, 1993. The average monthly billings was over $1 million from May 1991 to June 1993. Figure 3-3 shows the statewide accounting system cash balance adjusted for delinquent InterTech billings for the fiscal years ended June 30, 1991 through 1993. The fiscal year 1993 operating account cash balance is as of December 31, 1993.

Figure 3-3

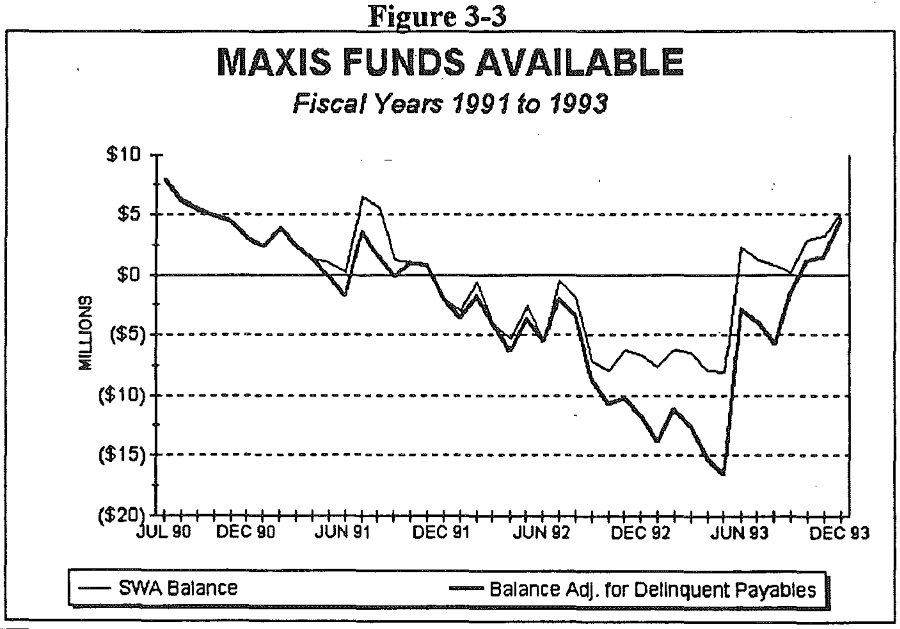


Figure 3-3 shows that Human Services routinely did not pay InterTech billings on time throughout the period. InterTech billings were delinquent for 23 of the 39 months. The maximum number of months that InterTech billings were not paid on time was six on May 31,1993 when there was an unpaid balance of $6.7 million. On June 4, 1993 the deficiency state appropriation of $13.2 million was authorized and recorded in the MAXIS accounts. This reduced the unpaid InterTech billings to three months totalling $3.4 million. By December 1993, the department settled its final cost reimbursements with the federal sponsoring agencies which increased the balance to $5 million.

The department needs to project the InterTech costs and pay bills on a prompt basis. The failure to pay bills promptly is a significant weakness in the departments internal control structure.

Recommendation

- *The department should ensure sufficient funds for operations and pay bills promptly.*

4. The department is claiming federal reimbursements for indirect costs, but it is not paying the General Fund as required by state law.

The department has not reimbursed the state General Fund for statewide and agencywide indirect costs from the inception of MAXIS. The General Fund has paid $4,442,245 in indirect costs from 1987 to 1993 for the development and operations of MAXIS. The department has claimed federal reimbursements of $2,831,019 for this same period. The department used these additional federal funds to administer MAXIS instead of reimbursing the General Fund. The Department of Finance agreed to waive the requirement to repay federal indirect cost reimbursements to the General Fund for the development phase. However, Finance did not approve of a waiver for the 1993 operating phase. Federal funds of $523,117 were received for 1993 operations and should be repaid to the General Fund. Minn. Stat. Section 16A.127 requires state agencies to pay federal indirect cost reimbursements to the General Fund unless a waiver is granted by the Department of Finance.

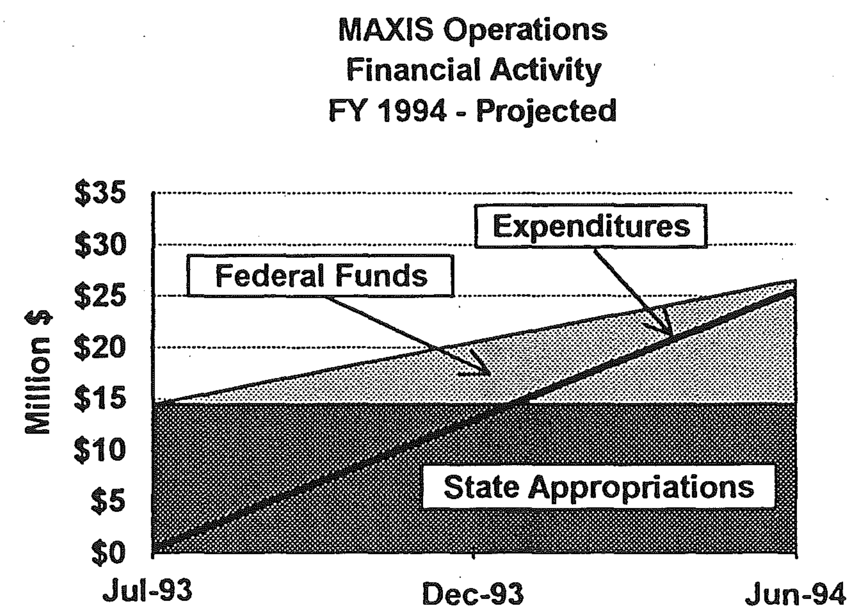
Recommendation

- *The Department of Human Services should reimburse the General Fund for $523,117 in federal reimbursements for indirect costs.*

Projection of 1994 MAXIS Operations

We have reviewed the state appropriation, anticipated federal reimbursements, and budgeted expenditures for fiscal year 1994. The department estimates that resources should be sufficient to finance expenditures for 1994. Currently, accounting staff in the department prepare monthly fiscal data. It reviews estimated resources and expenditures with MAXIS management staff. Figure 3-4 presents the department's most recent projection of financial activity for fiscal year 1994. However, we must caution that these estimates are based on levels of spending from July 1, 1993 to December 31, 1993. The estimated resources are about $27 million and expenditures are about $25 million. The state appropriation of $14.5 million is a more realistic funding level, given the federal participation of 50 percent of costs.

Figure 3-4



AUDITOR COMMENTS ON AGENCY RESPONSE

In its response, the Department of Human Services challenges some of our statements and conclusions as presented to the department in the draft report. We were not persuaded by the department's response and, therefore, did not revise our report. We believe that our facts and conclusions related to the MAXIS project are correctly stated in Chapter 3. We also do not agree with several elements of the department's response. As a result, we offer the following additional comments.

INTERNAL CONTROL WEAKNESSES (*DHS Response-page 29, item #1*)

The department does not agree that findings 2 and 3 are "control" issues. We are firm on our position that findings 2 and 3 represent material weaknesses in the department's internal control structure. Management's decisions to override the internal control structure is a material weakness in accordance with government auditing standards. It should be noted, however, that these findings are referenced to the MAXIS operations and not to the department as a whole.

NONCOMPLIANCE WITH APPROPRIATION LAW (*Response-Overview, page 28 and audit finding #1, page 34*)

The department does not acknowledge our main concern that it violated state appropriation law by incurring a deficit. The department does not have legal authority to spend funds without adequate resources. We consider the deficit a material instance of noncompliance with Minn. Stat. Section 10.17, spending in excess of appropriated funds. The department's response states that it continued MAXIS operations in spite of the potential deficit and did so in consultation with federal officials, key legislators and counties. However, we strongly believe that informal discussions between the department and these parties does not legally authorize the department to spend beyond its available resources. The department should have contained its spending within its available resources or sought additional state funds from the Legislative Advisory Commission.

STATE OPERATING DEFICIT (*Response-Overview, page 28*)

The department agrees with our conclusion that the deficit was in the operating phase of the MAXIS project. However, at various times in its response, the department says that the deficit was mainly caused by its lack of estimating federal receipts and its cash flow problems. The department stated that a major issue in its ability to forecast the deficit was the difficulties in accurately estimating future receipts of federal funds. We do not agree that estimating federal funds was difficult since the department knew the approximate federal reimbursement percentages. In any case, the deficit was not caused by a lack of federal financial participation, but a lack of state matching funds. We believe that the deficit was mainly caused by the department's lack of properly estimating and obtaining sufficient state appropriations for operating activities.

USE OF THE STATEWIDE ACCOUNTING SYSTEM (*Response-page 29, item #2 and page 36, finding #2*)

The department states that we misunderstand its use of the statewide accounting system (SWA) to account for MAXIS project costs. Although the department claims it had a method to account for its financial activities in SWA, our financial analysis and discussions with accounting staff did not show that the department had a systematic method of using the SWA accounts. Development phase and operating phase expenses were not systematically charged to SWA accounts but were commingled in the two SWA accounts. Although the department had supplemental records allocating costs for the MAXIS project, it did not properly use the SWA to identify the impending deficit for operating activities.

The department also discusses the removal of the SWA spending edit in this section of the response. It states that the Department of Finance agreed with temporarily removing the edit since Human Services had federal cash flow problems. Our concern is that federal receivables would never have been sufficient to cover the deficit shown on SWA. We believe that the removal of the spending edit deferred the need to resolve the shortage of state funds which ultimately resulted in a state deficit of $11 million.

COMPUTER BILLINGS (*Response-pages 37-38, finding #3*)

We disagree with the department's response that it could not properly estimate the computer billings from the Department of Administration InterTechnologies Group. Our review of the billings showed consistent amounts charged each month. Thus, the department could have used the historical data to estimate its future billings.

DEFICIENCY APPROPRIATION BALANCE AND FEDERAL INDIRECT COST REIMBURSEMENTS (*Response-pages 34-35, finding #1 and page 38, finding #4*)

We do not agree that Minn. Stat. Section 256.014 gives the department authority to retain the $5 million balance or the federal indirect cost reimbursements. We believe the $5 million balance in the fiscal year 1993 operating account is due the General Fund. This represents the balance of the state deficiency appropriation that was provided by the state legislature for a specific purpose, the 1993 operating deficit. Thus, the unexpended amount is due the General Fund. In addition, federal indirect cost reimbursements of approximately $500,00 are due the General Fund. State agencies are required by Minn. Stat. Section 16A.127 to repay the General Fund for federal indirect cost reimbursements. The department is not exempt from this provision.

PROJECTION OF 1994 MAXIS OPERATIONS (*Response-page 39*)

The department's response discusses our conclusion that the 1994 appropriation is sufficient for operations. We want to clarify that our comments are based on the department's projections. We did not project revenues and expenditures for either 1994 or 1995. We did agree that the department's projections of resources and expenditures for 1994 appeared reasonable in comparison to 1993. We did not review the department's projections for 1995.

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

February 16, 1994

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

Dear Mr. Nobles:

The Department of Human Services is submitting its response to the findings and recommendations included in the draft audit report resulting from your selected scope review covering the following areas:

(1) Appropriation control for the State Operated Residential Care for the Special Needs Program; and

(2) Administration of the development and operating costs of the state's centralized benefit issuance system (MAXIS).

The Department's response, attached, deals solely with the audit report's findings, conclusions, and recommendations relating to (2) above, the Administration of the state's centralized benefit issuance system (MAXIS). While the Department does not agree with a number of issues raised in the audit report, we want to note here our appreciation of the professionalism of the Auditor's staff and the challenges presented to them by the complexity of the MAXIS financing environment.

The Department agrees that it needs to improve its communication so that it keeps interested parties better informed when situations arise such as those discussed in this audit report. The Department will also follow its customary policy of conducting periodic evaluations of the progress made to resolve outstanding issues raised in the context of these audit findings, and will monitor progress until full resolution has occurred.

It is our understanding that the Department's response attached to this letter will be published with your final audit report.

Sincerely,

MGomez

MARIA GOMEZ
Commissioner

cc: Linda Ady
Jon Darling
Dennis Erickson

DEPARTMENT OF HUMAN SERVICES' RESPONSE TO CHAPTER 3: THE ADMINISTRATION OF THE DEVELOPMENT AND OPERATING COSTS OF MAXIS

OVERVIEW

The Department of Human Services appreciates the opportunity to comment on Chapter 3 of the draft audit report. The Department agrees with several issues discussed in the audit report:

- That operating costs, not development costs, were responsible for the deficit which occurred within MAXIS.
- That a major issue in the Department's ability to forecast the deficit was the difficulties in accurately estimating future receipts of federal funds.
- That the MAXIS account experienced cash flow issues which involved not only delayed federal reimbursement, but was also interconnected with its ability to pay InterTech billings.

With respect to the specific conclusions taken in the audit report, the Department's perspective is that:

- Management and financial control processes for MAXIS were in place and these controls detected the potential deficit referenced in the audit report;
- Department management, in consultation with federal officials, key legislators, and counties, had a responsibility to weigh risks and decide whether to continue system operations in spite of the potential deficit, or to stop system operations, pay back federal funds received for system development, and disrupt the state-county program and benefit delivery process; and
- The decision which management made (to continue system operations) was consistent with management's role and obligation, and was the correct decision because stopping an otherwise successful and mission-critical business system would have had serious negative consequences.
- However, the Department acknowledges that it should have done a more thorough job of communicating its situation to appropriate parties, by notifying them of the specific risks and options, and keeping them informed about the actions being taken to manage those system and financial risks.

The Department's detailed response includes discussion of the specific areas raised in the audit report, in a format consistent with the audit report itself. However, there are two areas which the Department wishes to highlight in this Overview.

1. **"Controls" versus Management Decisions**

   The audit report's cover letter identifies certain reportable conditions as weaknesses in DHS management and financial controls. The Department does not agree that these are "control" issues. Its management and financial control structures are (and were) established, and used appropriately. The Department's control structures detected the situation and provided notice of it. Solutions were then pursued following the normal administrative and legislative processes.

   Further, the Department's position is that the particular actions noted in the audit report were taken, not because of inadequate controls, but as a result of conscious management decisions based on the priority of continuing development and operation of a mission-critical system and avoiding significant negative consequences of stopping the system. Included in these consequences were not only the impact on counties and public assistance clients, but also the federal requirement to repay all federal funds which had been received as a part of this project. The Department's judgement was that continuing operations, while seeking a deficit appropriation, was the most responsible action.

2. **DHS' use of the Statewide Accounting (SWA) System**

   The Department wishes to be clear about the relationship between the removal of the SWA spending edit and the way in which SWA was used to pay operating and operational phase costs. We believe there may be a misunderstanding of the accounting structure used for MAXIS, and therefore, incorrect conclusions about DHS' intent in logging operational costs.

   The rationale for the particular accounting structure used, and the existence of other methods used in addition to SWA to separate and report on operating costs, is discussed later in the Department's response. The two-APID approach used during the Development Phase was not intended to separate Development from Operating Costs, but to separate MAXIS system-related costs which were charged against specific federal systems approvals from other MAXIS-generated activities which would be charged against federal funding for general administration of the assistance programs. Further, the APID-level spending edit was not removed nor used by the Department to hide the existence of an operating cost deficit. Rather, the edit resides at the APID level, and the Department of Finance agreed to have it temporarily removed because of the identified negative cash flow stemming from outstanding receivables due MAXIS for periods prior to the end of FY92 (for both the development and operational phase costs). The spending edit and the accounting structure were not used with the intention of avoiding the need to resolve the deficit, as the audit report suggests, but to address normal cash flow circumstances as they were perceived at that time.

DETAILED RESPONSE

Chapter Conclusions

In its "Chapter Conclusions", the audit report concludes that DHS did not have sufficient state funds for the MAXIS operating phase that began in January 1992, and that this shortage contributed to specific problems encountered in the three areas listed.

The Department of Human Services agrees that it did not have sufficient state funds for the Operational Phase, but wishes to comment on the three areas identified in this section of the audit report.

1. *It [DHS] paid a significant amount of operating costs from the development account in fiscal year 1992. Because the Department of Finance had removed the spending edit from the development account, Human Services did not have to resolve the deficit in operating costs immediately.*

   DHS Comment: We believe there is a misunderstanding about the types of accounts established by DHS during the Development and Operational Phases of MAXIS, and that because of that misunderstanding, the relationship between these accounts and the spending edit are also misunderstood. A more complete discussion of these issues is provided later in this response document.

2. *It [DHS] withheld payments on large bills for state computer services.*

   DHS Comment: This statement is true. However, the Department disagrees with the specific findings and recommendations surrounding this Conclusion. The Department is proud of its excellent record of timely payment of bills (over 98%), and requests that the language of the findings more clearly describe this as a unique situation used to limit the effects of negative cash flow within one program area. In addition, DHS believes the complexity of this situation is unfairly minimized in the audit report. A more complete discussion of this issue is provided later in this response document.

3. *It [DHS] did not repay the General Fund for the indirect cost reimbursements obtained from federal agencies. The Department of Finance exempted the DHS from these payments through fiscal year 1992, but it currently owes the General Fund about $500,000 for fiscal year 1993.*

   DHS Comment: The Department concurs with this statement, except for the last clause, beginning, "...but it currently owes...". Minnesota Statute 256.014 and riders direct the Department to deposit federal receipts into its Systems Fund. The Department believes the federal earnings of indirect costs have been handled appropriately, with or without the existence of a waiver. Since current law required DHS to handle the funds as it did, the Department contends that the waivers were unnecessary even in the years they were filed, and therefore, were not required in years that they were not filed. Further discussion of this issue is provided later in this response document.

A final Chapter Conclusion (page 11) states:

Recent projections show that the department has sufficient resources to operate the MAXIS system for fiscal year 1994.

DHS Response: We agree, as it relates to F.Y. 1994. However, funding will be needed in F.Y. 1995 to adjust to a recent change in federal law which reduces the anticipated federal share by nearly $3 million and to enable MAXIS to maintain and improve system performance. A recently-completed system review of MAXIS concluded that while the system was successful in meeting its objectives, there were significant competing demands on the system which is placing it at risk. The review recommended that significant attention be focussed on maintaining and improving system performance. This is important in the context of our response to an audit recommendation identified later in the document regarding the disposition of $5 million in carry-forward funds, which, if retained, would allow the Department to cover these costs without a deficit appropriation for the biennium.

We also would like to comment on terminology contained on page 11.

First, the phrase "Spending continually escalated" in the first paragraph evokes a reaction in the reader which otherwise does not appear to be evaluated in the balance of the audit report. While spending did continue throughout the project, and while as dollars were spent, the total expenditure figure grew, the term "continually escalated" suggests an impropriety to the expenditures. This idea is not developed further in the document, and the Department would therefore suggest the terminology be changed to be consistent with the issues studied in the document.

Second, in the third paragraph, the audit report states, "...the department had the Department of Finance remove an edit...". This connotes control by the Department of Human Services over Department of Finance decisions. DHS suggests the wording be changed to accurately reflect what occurred: The Department of Human Services requested that the Department of Finance remove the edit, and based upon information available at the time to DHS and to the Department of Finance, the Department of Finance responded appropriately to our request.

Background and History (pages 12-15)

Page 13, second paragraph: The final sentence in this paragraph is factually incorrect. Operating costs during the development phase (prior to December 31, 1991) were at the 50% federal matching rate. Certain major operating costs after that date became eligible for 90%, upon federal certification of the system. Therefore, the date was important because of the potential of securing additional federal matching funds when the system was deemed fully operational.

Page 13, third paragraph: This paragraph indicates that the Department "was not careful to account for operating costs separately from development costs". This is incorrect. An enormous effort was made to separate many forms of costs from each other, including operating costs. The Department filed Advance Planning Document Updates and quarterly system status reports with federal agencies which separated these costs, and maintained a detailed spreadsheet and an additional accounting system to track, monitor, and estimate its costs. Limitations within the Statewide Accounting System prevented us from incorporating all categorization structures desired by individual federal and state agencies and auditors. The account structure DHS used within the Statewide Accounting System was set up to support a variety of requirements, and the APID's did not, in and of themselves, use operating costs as a separate category. Operating costs occurred during both the development and operational phases, and had to be reported to federal agencies within each phase.

Page 13, last paragraph: The second to the last sentence should read, "The other $50.5 million was for the operations phase." Operating "costs" also existed within the $50.6 million dollars attributed to the "development phase."

Page 15, third and fourth paragraph: We will discuss our concerns with these two paragraphs within the context of the recommendations which follow from these paragraphs.

Analysis of Financial Activity for Development (pages 15-17)

Page 16, first paragraph: The second sentence, although correct, should be clarified. Although the "Department expanded" the initial MAXIS project, it did so either to meet federal certification requirements or for other justifiable reasons, and it made its decisions in consultation with federal officials, counties, and key legislators. The wording of the sentence implies that DHS acted unilaterally in producing the expansions which occurred.

Analysis of Financial Activities for Operations (pages 17-18)

Page 18, second paragraph: In the third sentence, two concepts are confused. The "Issuance Operations Center", the physical location for automated mailing processes, is different from the central issuance of benefits. It was the central issuance of benefits for which we did not request funds; this is a subset of costs within the Issuance Operations Center, which had been assumed in earlier funding requests, because the Department knew from the beginning that it would need a facility to print and mail client notices, forms, reports, etc. The decision to centralize benefit issuances changed the nature and cost of the existing plan for an Issuance Operations Center.

Page 18, second paragraph: In this paragraph the audit report discusses the timing between incurring the deficit and developing a biennial budget request for F.Y.s 1992-93. What the Department believes must be appreciated is the long lead time involved in the budget development and funding process. State biennial budget development guidelines required that preparation of funding requests for F.Y.s 1992-93 occur between June and October, 1990, just as the system was beginning implementation and before the full impact of operating costs and the outcome of federal cost allocation for operations were known.

Page 18, second paragraph: In the last sentence, the audit report says that DHS "claims that the volume of transactions and beneficiary caseload was higher than originally anticipated." First, we are concerned with the choice of the word "claims"; "states" would make the same point, and does not carry a connotation of untruth. Second, the audit report does not identify the complex interaction between transaction volume and corresponding costs to the Department. The growth in transaction volume must be understood with respect to the net costs to DHS and MAXIS. While DHS is billed for each transaction, we have also received after-the-fact rebates that result in less growth in cost than in transaction volume. The entire concept of economies of scale, given MAXIS' impact on InterTech's financing and ratesetting policies and processes, should at least be referenced in a discussion of the effect of transaction volumes on DHS' "difficulties in estimating the computer processing billings", particularly when a subsequent Finding (#3) is made that DHS did not "properly" estimate these billings. The existence and role of other entities in the process of estimating billings must be acknowledged. DHS could neither unilaterally forecast, nor control, all elements needed to guarantee such estimates.

Page 18, third paragraph: Regarding the third sentence in this paragraph, the Department asserts that it did monitor costs and resources very carefully, particularly under the extremely complex financing environment. Because of the types and levels of outstanding receivables, they had to be estimated, making any conclusions a product of projections rather than historical fact. The task of managing MAXIS' financial picture, particularly during the Development Phase and the early Operations Phase, was nearly unparalleled among state agencies in its difficulty, given the number of independent variables (both expenditures and forecasted receivables from three federal agencies based on each agency's unique reimbursement policies and matching rates) which had to be estimated, weighted, and subsequently projected into a timetable covering several years.

Page 18, third paragraph: In the same paragraph, fourth sentence, the conclusion is drawn that, if DHS had monitored its funds better, the deficit would not have occurred because DHS would have contained its spending. The Department does not agree with this conclusion. DHS did monitor its funds, and from that monitoring, realized that the potential for a deficit existed. Because of the limitations discussed above in being exact with our estimates, we could not be sure what the exact deficit would be, nor in what time period it would occur. At that point, consultations went on between DHS, federal agencies, and key legislators, and following those consultations, a management decision was made to continue the project, rather than stopping, waiting for the potential deficit to be funded, and then restarting (which would have been unlikely under federal system funding timetable requirements). The benefits of proceeding toward a successful system and the consequences (financial and service delivery) of stopping the project were significant. DHS strongly believes that its chief responsibility was properly focused on "results", which then led to the decisions made to move forward even though a potential deficit appropriation might ultimately be required. It would not have been responsible stewardship of state resources to have shut down the project. DHS was on track with a successful system, and did indeed complete that effort. To <u>not</u> do so would have been fiscally and managerially irresponsible.

Audit Finding #1

"The Department failed to contain spending within its resources available for MAXIS operations."

DHS Response: The Department made a management decision to continue successful system operations rather than turn off the system to avoid incurring additional expenses. It made this decision following consultation with federal officials, legislative leaders, and counties. We believe this was the proper decision in light of the more catastrophic and expensive (payback of federal funds and lost value of state funds already invested) alternative of ceasing MAXIS operations. All parties were making the best decisions possible given the information available at the time and the known benefits of continuing a system which was meeting critical needs.

Audit Recommendations:

- "The department should take immediate action to ensure adequate funding for the costs of operating the MAXIS system. The department must contain its spending within its available resources."

  DHS Response: The Department agrees that the operating costs of the MAXIS system should be adequately funded. The request for the deficit appropriation developed by DHS in 1992 and presented to the Legislature in 1993 was an action by the Department to secure adequate funding. This action was timely and within the budget and legislative timeframes available to the Department to respond. This approach had been discussed with key legislators, and informal agreements to continue to move forward were logically based. The same types of negotiations occurred with federal officials who were responsible for approving retroactive funding.

  At the present time, forecasting future operating costs has become more refined in large part because the Operations environment is stabilized and funding flows are more definite and timely. During the Development Phase and into the beginning of the Operations Phase, there were many more variables which made financial control and monitoring heavily based on projections and estimates of both expenses and receipts. The Department believes that some recognition of this past complexity should be identified in the audit report.

- "The department should return the $5 million balance in the fiscal year 1993 operating account to the state General Fund."

  DHS Response: The Department does not concur.

  First, the appropriation to a Fund 20 account is a recognition that in system development spending, even if costs are contained within original appropriations amounts, the timing of fiscal years and year end cancellations of balances which are the rule in the General Fund are inconsistent with issues of timing and cash flow inherent in a systems development environment.

Second, the DHS Systems Account, within which the MAXIS-related APID's reside, is managed by DHS under a rider which allows the movement of funds among various projects and systems:

> "...Money appropriated for computer projects approved by the information policy office, funded by the legislature, and approved by the commissioner of finance may be transferred from one project to another and from development to operations as the commissioner of human services considers necessary."
>
> *(Laws of Minnesota, 1993 First Special Session, Ch.1, Art.1).*

The Department believes legislative intent in providing this rider was to allow agency management some flexibility in order to ensure the successful and consistent operation of its mission-critical computer systems.

Third, if DHS were to return the balance to the General Fund, a new deficit would be created during this biennium. The ability to cover a loss of nearly $3 million in federal matching funds (as a result of a recent federal law change effective in April, 1994) and the ability to adapt the MAXIS system to its changing environment by maintaining and improving performance rests on DHS retaining the outstanding carry-forward balance from FY93.

DHS also wishes to comment on the text of Page 19. In the third sentence, the audit report states that DHS "ultimately" sought a deficiency appropriation. As stated previously, the Department believes it had been dealing with this issue for some time and that it followed the budget development timetable.

Further, in the last sentence on Page 19, the audit report indicates that the Department could have better estimated its available resources. The Department believes it is important to understand the extreme complexity it faced in estimating federal participation, and the need for direct negotiation with federal agencies in securing specific levels of matching funds for various expenditure categories. Significant effort was expended in this area by DHS staff, for the purpose of maximizing federal matching funds and then anticipating the level and timing of their receipt.

Finally, the Department would like to make a clarifying point regarding Page 20, first paragraph. The difference between the initial request for a deficiency appropriation of $15.186 million and the resulting legislative appropriation of $13.2 million occurred as a result of DHS action. Just prior to final committee appropriations, DHS learned and immediately communicated to legislative appropriation committees that it had secured a much more favorable cost allocation formula from federal agencies. This new allocation formula increased federal receivables and reduced the amount needed in state funding, and resulted in the reduced amount appropriated.

Audit Finding #2

"The Department of Human Services improperly charged operating costs to its development account to finance the deficit."

DHS Response: The Department believes that its account structure, including the categories to which development and operating costs were charged, was appropriate and reflected the federal policies and reporting structures needed to ensure federal matching funds. Operating costs were isolated as needed on separate worksheets, because the Statewide Accounting System lacked the structure to meet the number of variables and reporting structures needed to satisfy federal, state, and internal management requirements. The Department utilized the AID level within the Statewide Accounting System to isolate Development Phase costs from Operational Phase costs.

The Department also believes that the account structure was consistent with legislative intent. Rider language in each biennium allowed DHS to move funds between development and operations (as well as between projects financed within the DHS Systems Fund).* These riders reflect an understanding by the legislature that the Department needed flexibility in the use of its computer systems appropriations.

Audit Recommendations:

- "The Department of Human Services should monitor its spending and available resources. The spending edit in statewide accounting should be used with extreme caution to avoid any potential deficits."

  DHS Response: The Department agrees, and will continue, as it has been, to monitor spending against available resources. We do not anticipate any conditions which would require that the spending edit be removed again, because the financing environment under the Operational phase has greatly simplified. Incoming federal funding is now received much closer to the time of the expenditures, significantly reducing major time lags in receipt of federal matching funds and incidents of outstanding negative cash flow which created the earlier need to lift the spending edit.

  The Department is also committed to doing a better job of communicating the status of its spending and available resources to interested parties.

- "The Department should properly record anticipated receipts in the statewide accounting system."

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* Laws of Minnesota, 1993 First Special Session, Ch. 1, Art. 1
Laws of Minnesota, for 1991, Ch. 292, Art. 1
Laws of Minnesota, for 1990, Ch. 568, Art. 1
Laws of Minnesota, for 1989, Ch. 282, Art. 1
Laws of Minnesota, for 1987, Ch. 403, Art. 1

DHS Response: The Department believes that it did estimate receipts as accurately as possible, and properly recorded those estimates into SWA. Receipts during the Development phase had to be estimated and projected based on several independent variables, including the timeframe within which the receivable could be anticipated and the rate of FFP from each federal agency for each expenditure item. The Operational phase financing is much simpler, and cash flows are more regular and predictable, so it will be possible to more accurately predict future receivables and fund balances.

The Department would also like to comment on the third paragraph under this Finding. In that paragraph, the audit report states that "state agencies should have federal approvals to substantiate the amounts recorded as anticipated receipts to ensure that a deficit does not occur." While this is a good operating assumption in most situations, in the case of MAXIS development/operations, it would have stopped the project on several occasions. The result would have been significant monies wasted on stop-restart expenses, violation of the federal law which holds these projects to agreed-upon implementation timeframes, and in the end, most likely, prevented the successful development and implementation of MAXIS. DHS experienced significant lags in receiving federal technical approvals, but did negotiate oral agreements which allowed the Department to eventually secure much more favorable reimbursement rates. Awaiting federal commitments on paper would not have allowed a successful project.

Audit Finding #3

"The department is not properly estimating InterTech billings and is not paying its obligations promptly."

DHS Response: DHS has one of the best records among state agencies for prompt payment, consistently paying 98% or more of its bills within 30 days. Accordingly, the Department believes that the Finding above should be restated to refer only to the InterTech billings incurred on behalf of MAXIS, which involved a unique and complex situation.

The Department would also like the audit report to clarify that the estimating of InterTech billings is a "forecasting" process. Also, "billings" are not the same as InterTech "costs" from a forecasting and budget estimating standpoint. Historically, InterTech's billings exceeded actual costs, and agencies were issued refunds ("rebates") after-the-fact. These refunds/rebates are calculated and issued by InterTech, and occasionally are re-directed to the General Fund rather than being returned to agencies as a refund. The billings by InterTech were generally higher than actual cost, because the impact of MAXIS was to drive down rates-per-transaction due to economies of scale.

Because of the effect that large, changing computer systems have on InterTech's environment, the task of estimating both cost and individual billings is extremely complex. Also, billings are driven by the number of times MAXIS' 6000+ users press "Enter" (which is driven by caseload changes and policy changes) and offset by after-the-fact refunds which may occur depending on other major systems operating at InterTech. Therefore, accurate estimating of billings and costs must be in the context of forecasting payments with adjustments, as opposed to guaranteed payments of all billings. Otherwise, initial appropriations would need to be much higher.

Audit Recommendations:

- "The department should ensure sufficient funds for operations and pay bills promptly."

  DHS Response: The Department has been taking these actions, as discussed above. In the case of MAXIS InterTech billings, the Department held payment due to the negative cash flow balance during FY93. This was a management decision which was based on the judgement that the first priority should be to ensure payments continued to flow to private vendors of goods and services. This was achievable by holding payment to InterTech, and surpluses at InterTech allowed this option to be taken without harm to the stability of service delivery to InterTech customers. The delayed receipt of federal matching funds from prior periods caused the payments to remain on hold longer than initially planned.

  The Department is concerned about the audit report's conclusion that "the failure to pay bills promptly is a significant weakness in the departments internal control process" is incorrect. The Department's strong internal control processes are what leads to its excellent prompt payment record. The "failure" to pay the InterTech bills incurred by MAXIS was a management decision, not an issue of internal controls.

Audit Finding #4

"The department is claiming federal reimbursement for indirect costs, but it is not paying the General Fund as required by state law."

Audit Recommendations:

- "The Department of Human Services should reimburse the General fund for $523,117 in federal reimbursements for indirect costs."

  DHS Response: The Department of Human Services disagrees with the audit finding and recommendation. It is the Department's position that Minnesota Statutes 256.014 provides authority to retain federal reimbursement generated by the DHS state systems fund projects. This interpretation of the statute has been consistently applied since the beginning of all the projects referenced in the Statute and the establishment of the state systems fund.

Projection of 1994 MAXIS Operations

In this section, the audit report concludes that the Department has sufficient appropriation for FY1994. The Department wishes to note, however, that new federal legislation will reduce the available federal receipts. This change does not take effect until the last quarter of FY1994, so the greater impact on the MAXIS budget will occur in FY1995.