

**DEPARTMENT OF HUMAN SERVICES**

**FINANCIAL AUDIT**

**FOR THE YEAR ENDED JUNE 30, 1993**

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**JUNE 1994**

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

**94-30**



# SUMMARY

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

## DEPARTMENT OF HUMAN SERVICES

### FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1993

Public Release Date: June 9, 1994

No. 94-30

#### OBJECTIVES:

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

#### CONCLUSIONS:

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

- The Department of Human Services needs to improve controls over the Medical Care Surcharge System.
- The department is not properly monitoring the accuracy of data used in its costs allocation plan.
- The department's sampling methodology used to test eligibility is deficient for the Family Support Program (CFDA# 93.560).

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

- The department did not conduct the required number of on-site audits of cost reports for nursing homes in fiscal year 1993.
- The department improperly reported 1991 grant year obligations to the federal government and used the funds for a subsequent period for the Child Care Development Block Grant (CFDA# 93.575).
- The department improperly used 1990 grant funds for 1992 social service contracts in the Refugee Resettlement Program (CFDA #93.026).
- The department is not complying with certain state and federal reporting requirements for the Social Services Block Grant (CFDA #93.667).

Contact the Financial Audit Division for additional information.

296-1730





STATE OF MINNESOTA

**OFFICE OF THE LEGISLATIVE AUDITOR**

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

JAMES R. NOBLES, LEGISLATIVE AUDITOR

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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 the Department of Human Services as of and for the year ended June 30, 1993. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Human Services, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Department of Human Services in effect at June 30, 1993.

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

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

## **Management Responsibilities**

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

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

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

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

## **Internal Control Structure**

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following federal and state programs. Federal financial assistance programs are categorized by Catalog of Federal Domestic Assistance Number (CFDA).

- Medical Assistance CFDA #93.778
- States Family Support Payments CFDA #93.560
- Social Services Block Grant CFDA #93.667
- Child Support Enforcement CFDA #93.563
- Foster Care CFDA #93.658
- Food Stamps CFDA #10.551
- State Administration-Food Stamps CFDA #10.561
- Jobs Opportunities/Stride CFDA #93.561
- State Health Care Providers CFDA #93.777
- Refugee Assistance CFDA #93.566
- Alcohol/Drug/Mental Health Block CFDA #93.992
- Substance Abuse Preventive Treatment Block #93.959
- Child Care Assistance CFDA #93.575
- General Assistance Medical Care - State
- Community Social Services Block Grant - State
- Cost of Residents' Care
- Medical Care Surcharge

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

## Conclusions

Our study and evaluation disclosed the conditions discussed in findings 2, 5, and 7 involving the internal control structure of the Department of Human Services. We consider these conditions to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.


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


However, we noted certain matters involving the internal control structure and its operation that we reported to the management of the Department of Human Services at a meeting held on April 11, 1994.

The results of our tests indicate that, with respect to the items tested, except for findings 1, 3, 4, and 6, the Department of Human Services complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Department of Education had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Human Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on June 9, 1994.

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

  
James R. Nobles  
Legislative Auditor

  
John Asmussen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 15, 1994

Report Signed On: May 27, 1994





## Department of Human Services

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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
Pat Ryan	Auditor
Marla Conroy, CPA	Auditor
Dan Quandt, CPA	Auditor
Rhonda Regnier, CPA	Auditor
Geniene Herrlich	Auditor
Christina Weiss	Auditor
Kristine Tetzlaff	Intern

### Exit Conference

The findings and recommendations in this report were discussed with the following staff from the Department of Human Services on April 11, 1994:

John Petraborg	Deputy Commissioner
Deborah Huskins	Assistant Commissioner, Family Self Sufficiency Administration
Jon Darling	Director, Financial Management Division
Quy Dam	Director, Refugee Assistance



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## Introduction

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

- financial assistance and medical care to low income persons;
- social services to families, children, and adults; and
- physically handicapped.

Maria Gomez was appointed Commissioner of the department by Governor Carlson on December 13, 1993. Natalie Steffen served as Commissioner from January of 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; 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 1993 totaled approximately \$3.6 billion, as reported on the statewide accounting system. We examined expenditure programs as shown in Table 1-1 that comprised about 80 percent of the department's total expenditures. Federal programs include state matching expenditures and are categorized by the Catalog of Federal Domestic Assistance Number (CFDA).

For fiscal year 1993, the department's MAXIS system processed recipient eligibility for various state and federal benefit programs. Counties determine recipient eligibility and enter the required data on the state's centralized computer system. The department issues the benefits payments centrally in the issuance operations center in St. Paul. Food Stamps are also issued by the operations center for all counties except for Ramsey County. Ramsey food stamps are issued by an electronic benefit issuance system which is administered by the county.

We also examined the Food Stamps Program (CFDA 10.551), which includes the coupons issued by the department's issuance operations center in St. Paul. We did not audit the Ramsey County electronic benefit issuance system. For fiscal year 1993 the state issued food coupons to recipients totaling \$192,381,352. Inventory of food coupons on hand at June 30, 1993, is valued at \$33,632,962. Ramsey County reported \$36,424,672 for food purchases under its electronic system.

The department administers the revenue system for the cost of care related to the state regional treatment centers and community group homes. The department also assessed a medical care surcharge to various providers in 1993. Our audit scope included both of these revenue systems in the department. For fiscal year 1993, cost of care revenue was \$99,761,538 and medical care surcharge revenue was \$65,757,597.

## Department of Human Services

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Table 1-1  
Department of Human Services  
Summary of Expenditures  
Year Ended June 30, 1993

	<u>Expenditures</u>
Federal Programs: (1)	
Medical Assistance - CFDA #93.778	\$2,029,812,267
States Family Support Payments - CFDA #93.560	403,110,037
Social Services Block Grant - CFDA #93.667	48,654,166
Foster Care - CFDA #93.658	41,770,281
Child Support Enforcement - CFDA #93.563	33,192,955
Food Stamps Administration-CFDA #10.561	26,008,963
Jobs Opportunities/Stride - CFDA #93.561	18,361,919
Child Care Assistance - CFDA #93.575	9,624,378
Refugee Assistance - CFDA #93.566	7,851,407
Alcohol/Drug/Mental Health Block - CFDA #93.992	7,504,339
Substance Abuse Preventive Treatment Block - CFDA #93.959	7,050,000
Food Stamps - CFDA #10.551	4,203,063
State Health Care Providers - CFDA #93.777	3,900,579
State Programs: (2)	
General Assistance Medical Care	164,731,766
Community Social Services Block Grant	54,104,988

Sources: (1) Minnesota's Financial and Compliance Report on Federally Assisted Programs.  
This report will be issued in June 1994.  
(2) General Assistance Medical Care and Community Social Services Block amounts  
are derived from the statewide accounting system, with any adjustments needed for  
presentation in the Comprehensive Annual Financial Report.

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## Current Findings and Recommendations

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**1. The Department of Human Services did not conduct the required number of on-site audits of cost reports for nursing homes in fiscal year 1993.**

The department's audit division did not complete on-site audits of 25 percent of the nursing homes in fiscal year 1993, as required by state law. Minnesota statutes require the department to perform annual on-site audits of the cost reports submitted by nursing homes participating as vendors of medical assistance. The department is required to audit 25 percent of the homes annually. Our review of the number of audits performed by the department for the year ended June 30, 1993, showed that the division audited 20 percent of the homes. Of the state's 444 nursing homes participating as vendors of medical assistance for 1993, the division audited 90.

Audit division staff cited the reason for not complying with the statute was a lack of personnel resources. The statute provides some flexibility in selecting audit sites by prioritizing audits with high risk. The department should review its available resources and allocate its hours accordingly to meet the required level of annual audit coverage. The department should seek other alternatives to achieve the 25 percent audit coverage if it is unable to obtain additional staff. The department could also seek amendment to the statute to allow it more flexibility.

Section 256B.27, Subd. 2a provides:

Each year the commissioner shall provide for the on-site audit of the cost reports of nursing homes participating as vendors of medical assistance. The commissioner shall select for audit at least 5 percent of these nursing homes at random and at least 20 percent from the remaining nursing homes, using factors including, but not limited to: change in ownership; frequent changes in administration in excess of turnover rates; complaints to the commissioner of health about care, safety, or rights; where previous inspections or reinspection have resulted in correction orders related to care, safety, or rights, or where persons involved in ownership or administration of the facility have been indicted for alleged criminal activity.

### *Recommendation*

- *The Department of Human Services should perform the number of on-site nursing home audits as required by Minn. Stat. Section 256B.27, Subd. 2a, or seek amendment to the provisions.*

## Department of Human Services

### **2. The department needs to improve controls over the Medical Care Surcharge System.**

We found two control weaknesses over the Medical Care Surcharge System. First, staff that collect receipts also have authority to record transactions on the computerized accounts receivable ledger. Second, the same employee that enters transactions on the statewide accounting system (SWA) also has authority to record transactions on the accounts receivable ledger. The department increases the risk of inappropriate or unauthorized transactions by not segregating these incompatible functions. Medical care surcharge revenues totaled approximately \$66 million in fiscal year 1993.

Approximately 40 employees are assigned to the Medical Care Surcharge System. Many of these employees collect receipts and have access to the computerized update screens for the accounts receivable ledger. Access to the update screens allow employees to change the billing amounts and the accounts receivable balances. The department needs to segregate the duties of updating the accounts receivable ledger and collecting receipts. The department should assign the receipts collection function to other employees that do not have access to the accounts receivable ledger.

The department has concentrated more extensive authority with one particular employee. This employee issues refunds and enters and reconciles transactions on the statewide accounting system. In addition, this employee has access to the transactions recorded on the accounts receivable ledger. This employee should not have authority to record or adjust transactions on the accounts receivable ledger. If these duties are not segregated, this employee could conceal errors or irregularities.

#### *Recommendations*

- *The Department of Human Services should ensure that employees processing receipts do not have the ability to adjust accounts receivable.*
- *The Department of Human Services should not allow the same employee access to SWA and the accounts receivable ledger.*

### **3. The department improperly reported 1991 grant year obligations to the federal government and used the funds for a subsequent period for the Child Care Development Block Grant (CFDA # 93.575).**

The Department of Human Services improperly reported obligations of \$238,000 for the 1991 grant year which allowed it to use these funds for 1992 obligations. The department reported this amount as an unliquidated obligation for the 1991 grant year on the FSR 269 report filed with the federal government. However, the department did not have valid obligations for the 1991 grant year as required by federal regulations. The regulations required completed and signed contracts by September 30, 1992 to obligate the 1991 federal grant funds.

## Department of Human Services

The following questionable items were included in the \$238,000 reported on the FSR 269 report as outstanding unliquidated obligations for the federal fiscal year 1991 grant award as of September 30, 1992.

- Requisitions of \$148,427 as shown on the statewide accounting system at September 30, 1992. The department records requisitions when a contract or service is anticipated, which is not a valid obligation as defined by federal regulations. Requisitions are not completed and signed binding contracts.
- An amount of \$60,000 was set aside for the salary of the executive director of the Early Childhood Care and Education Council. However, the executive director of the council was not hired until November 1992. Therefore, this amount is not a valid obligation for the 1991 grant award.
- The remaining amount of \$29,260 was for contract amendments signed after September 30, 1992. This amount is not a proper obligation for the 1991 grant year.

45 CFR 98 and U.S. Office and Management and Budget Circular A-102, the Common Rule, provide that obligations are supported by signed, binding contracts.

### *Recommendations*

- *The Department of Human Services should obligate and expend federal funds within the time frames specified by the federal regulations. The department should show valid obligations on the FSR 269 reports.*
- *The Department of Human Services should resolve the improper use of \$238,000 of 1991 grant funds with the federal government.*

#### **4. The department improperly used 1990 grant funds for 1992 social service contracts in the Refugee Resettlement Program (CFDA #93.026).**

The Department of Human Services improperly expended the balance of the federal fiscal year 1990 social services grant allocation for 1992 contractual obligations. Social services is allocated funds within the federal Refugee Resettlement Program. Federal regulations specify the time frames for obligating and expending grant award funds. For the social services allocation, the department was required to obligate federal fiscal year 1990 grant funds by September 30, 1991. However, the department used \$188,371 of 1990 funds for obligations incurred in July 1992.

The department improperly transferred costs from 1992 to the 1990 account in the statewide accounting system to use the balance of funds for the 1990 grant year. The department obligated and paid the social service contracts in 1992, but reversed these transactions and charged the expenditures against the 1990 award. 45 CFR 74.71 and U. S. Office and Management and Budget Circular A-102, the Common Rule, provide that obligations for contracts in a

## Department of Human Services

given period require payment during that year or in a future period. The department did not have proper authority to transfer current obligations and expenditures to a prior year grant award.

### *Recommendations*

- *The Department of Human Services should obligate and expend federal funds for social services within the time frames specified by the federal regulations.*
- *The Department of Human Services should work with the federal government to resolve the improper use of the 1990 grant balance of \$188,371 .*

### **5. The department is not properly monitoring the accuracy of data used in its cost allocation plan.**

The Department of Human Services is making calculation errors in its base rate and in costs allocated to the cost centers. Most departmental costs are allocated to the various components using the number of employees (full-time equivalents), or square footage of office space as the allocation basis. We found errors in the data for full-time equivalents and square footage used to calculate the base rate. Rental costs of office space allocated did not reconcile to the amount paid by the department. Erroneous or unsupported data increases the risk of improperly allocating costs to the various programs.

The department made errors in its calculations allocating the total full-time equivalents (FTEs) to the various components. Total FTEs shown on the employee roster by division shows 1,148; however, the department allocated 1,193 FTEs to the central service cost centers. These cost centers are used to further allocate administrative (indirect) costs to its component units. This error changes the average cost per FTE within each cost center, most notably for the costs related to the MAXIS automation project and Health Care and Resources. Central service administrative costs were under-allocated to these cost centers. The effect is that most programs were not allocated enough indirect costs for these cost centers. The department could not explain the difference in FTEs used and the amount shown on the roster. Other inconsistencies exist that the department cannot explain. For example, in one instance an employee on leave would be excluded from the calculation, whereas in another case, the person on leave was included in the calculation. Part-time employees were counted as one instead of a fractional FTE.

The department did not properly support the data used to allocate square footage to the various cost centers. Square footage of office space shown on the department's rental billing did not reconcile to the amount allocated to the centers on the cost allocation plan. The department was not able to explain its adjustments to the amount of square footage allocated to the centers. The difference was mainly attributable to Family Support Administration and Child Support Enforcement Project costs. However, the department did not document its changes to the rent amounts allocated to these divisions. The department used total square footage of 241,519 to allocate costs. However, the department's billing supporting rent paid showed



## Department of Human Services

236,652 square footage of office space. The department was not able to explain the difference of 4,867 square feet. These variances changed the percentage of costs allocated and the amount of rent charged to the various divisions. Square footage is a key element used in allocating indirect costs to the various components.

The department should document its data used in the base rate and reconcile its data to the source documents. The department should develop supporting documentation for any adjustment made to the source of the information. Someone independent of the calculation process should review the correctness of the data used in the cost allocation plan. The department should also consider computerizing its allocation processing to reduce the mathematical errors in the calculations. Without properly checking the calculations and documenting the source of the data used in the plan, the department assumes risks of potential undetected errors.

### *Recommendations*

- *The Department of Human Services should ensure that adequate supporting documentation is maintained for the data used in the cost allocation plan.*
- *The Department of Human Services should ensure that the allocation is based on correct calculations of program share of costs.*

#### **6. The department is not complying with certain state and federal reporting requirements for the Social Services Block Grant (CFDA #93.667).**

The Department of Human Services did not complete an annual report of expenditures as required by federal regulations. In addition, the department did not require counties to report quarterly the number of clients served by the program as specified in state law. The department should comply with the federal and state reporting provisions.

The department has not prepared annual expenditure reports for the Social Services Block Grant for fiscal years 1991, 1992, and 1993. The department has not submitted annual reports to the federal government since the reporting period was revised. Previously, the department filed biennial expenditure reports as required by federal regulations. The department's last expenditure report was for the period 1989 to 1990. The law was revised to require annual reporting of expenditures. The annual report should describe the purpose of the social services expenditures for each fiscal year. The report is required to show that the department is complying with its intended use report filed previously. The intended use report is filed biennially and documents the department's plan and budget for the social services program. 42 USC 1397(e) states that:

reports shall be prepared annually, covering the most recently completed fiscal year, and shall be in such form and contain such information as the state finds necessary to provide an accurate description of such activities, to secure a complete record for the purposes for which the funds were spent, and to determine the extent to which funds were spent, and to determine the extent to which funds are spent in a manner consistent with the intended use report.

## Department of Human Services

Finally, the department did not comply with the state statute that required counties to file quarterly reports on the number of clients served by the social services program. The department obtained this information annually from the counties. Minn. Stat. Section 256E.08, Subd. 8(b) states that counties must report the number of clients served during the preceding quarter. The department believes that quarterly reporting is too costly; thus, it has not enforced the law.

### *Recommendations*

- *The Department of Human Services should file annual expenditure reports with the federal government as required by 42 USC 1397(e).*
- *The Department of Human Services should either comply with the quarterly client reporting provision of state law, or seek to amend the provision to annual reporting if it is appropriate.*

### **7. The department's sampling methodology used to test eligibility is deficient for the Family Support Program (CFDA #93.560).**

The sampling technique for selecting test samples for the Quality Control Section did not include all family support payments. The current sampling method only selects payments which are coded to the benefit month being sampled. Payments coded to prior months are rejected by the sampling method and are not subject to testing.

We analyzed the month of June 1993 to determine the materiality of family support payments not subject to testing. We found that the department's sampling technique would not include \$1.2 million of payments from a total population of \$33.3 million for the month. In our judgment, the excluded transactions pose a higher risk of error because of the delay in their processing. Thus, it is important to include them in the sample.

The department and the federal government rely on the quality control testing to ensure that only eligible recipients are receiving payments. We believe that the testing population should include all payment transactions from the month chosen for testing.

### *Recommendation*

- *The Department of Human Services should modify the sampling methodology used to select testing samples for family support payments to ensure that all payments are subject to testing by the Quality Control Section.*



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

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

May 25, 1994

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

Dear Mr. Nobles:

The Department of Human Services is submitting its responses to the findings and recommendations included in the draft report resulting from your audit of this agency for the year ended June 30, 1993. It is our understanding that these responses will be published with your final report.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Gomez".

MARIA GOMEZ  
Commissioner

cc: Renee Redmer  
Charles Gill

**Audit Finding #1**

The Department of Human Services did not conduct the required number of on-site audits of cost reports for nursing homes in fiscal year 1993.

**Audit Recommendation #1**

*The Department of Human Services should perform the number of on-site nursing home audits as required by Minn. Stat. Section 256B.27, Subd. 2a, or seek amendment to the provisions.*

**DHS Response #1**

Although the Department has not conducted the number of nursing facility field audits required by Minn. Stat. Section 256B.27, Subd. 2a, we have made substantial progress toward meeting this goal. A summary of long term care audits completed in recent years is provided below.

	Intermediate Care Facilities		Total
	Nursing Facilities	Mentally Retarded	
FY90	38	7	45
FY91	11	29	40
FY92	10	31	41
FY93	50	40	90
FY94 (estimated)	68	48	116

In addition to the changes which have resulted in this improvement, we are currently in the process of evaluating some work plan adjustments which potentially could result in the completion of an increased number of nursing facility field audits. Following evaluation of these alternatives, we will assess the need for a statute amendment.

**Person Responsible**

Lori Mo

**Audit Recommendation #1, Continued**

**Estimated Completion Date**

Evaluation of work plan modifications is currently in progress. Implementation of any necessary changes will be effective beginning on September 1, 1994. A statute amendment will be requested during the 1996 legislative session if necessary.

**Audit Finding #2**

**The Department needs to improve controls over the Medical Care Surcharge System.**

**Audit Recommendation #2-1**

*The Department of Human Services should ensure that employees processing receipts do not have the ability to adjust accounts receivable.*

**DHS Response #2-1**

Access to Medical Care Surcharge System accounts receivable adjustment transactions has been eliminated for Financial Management Division employees who process receipts.

**Person Responsible**

Mary Altstadt

**Estimated Completion Date**

Corrective action has been completed.

**Audit Recommendation #2-2**

*The Department of Human Services should not allow the same employee access to SWA and the accounts receivable ledger.*

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

**DHS Response #2-2**

While we feel it is necessary that our accountants retain access to SWA, access to Medical Care Surcharge System accounts receivable adjustment transactions has been eliminated for Financial Management Division employees who process receipts. The Department is confident that a proper segregation of duties has been achieved by these changes.

**Person Responsible**

Mary Altstadt

**Estimated Completion Date**

Corrective action has been completed.

**Audit Finding #3**

The department reported 1991 grant year obligations to the federal government and used the funds for a subsequent period for the Child Care Development Block Grant (CFDA #93.575).

**Audit Recommendation #3-1**

*The Department of Human Services should obligate and expend federal funds within the time frames specified by the federal regulations. The department should show valid obligations on the FSR 269 reports.*

**DHS Response #3-1**

The Department of Human Services, in almost all cases, obligates and expends federal funds within the time frames specified by the federal regulations and shows valid obligations on the ACF-269 reports. This particular case is the result of ambiguous and untimely communication from the Federal Administration for Children and Families (ACF) regarding

**DHS Response #3-1, Continued**

obligation and spending requirements for this new grant program. The clearest information was finally provided by ACF in a federal action transmittal received by states five months after the established obligation deadline. In spite of the situation, the Department of Human Services was able to obligate 98 percent of the 1991 grant funds within the eventual obligation deadline and came very close on the remaining two percent.

**Person Responsible**

Barbara O'Sullivan

**Estimated Completion Date**

Not applicable

**Audit Recommendation #3-2**

*The Department of Human Services should resolve the improper use of \$238,000 of 1991 grant funds with the federal government.*

**DHS Response #3-2**

Based on DHS Response #3-1 and the fact that the funds were expended on eligible grant activity, the Department of Human Services contends that it would be unreasonable for ACF to require the repayment of the \$238,000 in question. Accordingly, no further steps will be initiated by the Department of Human Services.

**Person Responsible**

Barbara O'Sullivan

**Estimated Completion Date**

Not applicable

**Audit Finding #4**

**The department improperly used 1990 grant funds for 1992 social service contracts in the Refugee Resettlement Program (CFDA #93.026).**

**Audit Recommendation #4-1**

*The Department of Human Services should obligate and expend federal funds for social services within the time frames specified by the federal regulations.*

**DHS Response #4-1**

Until the issue was raised in this year's audit, it had been the Department's understanding that we had two years after the award year to use refugee social services grant money, based on the wording of 45 CFR 400.210. Beginning with the FFY 1994 refugee social services grant, the Department will obligate and expend federal funds for refugee social services within the time frames specified by the federal regulations.

**Person Responsible**

Quy Dam

**Estimated Completion Date**

September 30, 1994

**Audit Recommendation #4-2**

*The Department of Human Services should work with the federal government to resolve the improper use of the 1990 grant balance of \$188,371.*



**Audit Recommendation #4-2, Continued**

**DHS Response #4-2**

The Department has started the informal process of working with the federal Office of Refugee Resettlement (ORR). ORR program staff is seeking guidance from the Office of Financial Management to resolve this issue.

**Person Responsible**

Quy Dam

**Estimated Completion Date**

September 30, 1994

**Audit Finding #5**

**The department is not properly monitoring the accuracy of data used in its cost allocation plan.**

**Audit Recommendation #5-1**

*The Department of Human Services should ensure that adequate supporting documentation is maintained for the data used in the cost allocation plan.*

**DHS Response #5-1**

Beginning with the quarter ending 06/30/94, allocation statistical data received from program staff will be entered onto a PC spreadsheet and reconciled with any adjustments noted. This spreadsheet will then be returned to the appropriate program staff for final review. For example, square footage data, used for rental cost allocation, will be returned for review to management services staff. Similarly, FTE data will be returned

**DHS Response #5-1, Continued**

for review to the position control accountant who is responsible for the employee roster report. Other data will be reviewed in a similar manner. The cost allocation will proceed after final review of data by appropriate staff.

**Person Responsible**

Lyle Koenig

**Estimated Completion Date**

June 30, 1994

**Audit Recommendation #5-2**

*The Department of Human Services should ensure that the allocation is based on correct calculations of program share of costs.*

**DHS Response #5-2**

Federal regulations require that all expenditures be reported on a cash basis. Each quarter, the Managers Financial Report (MFR) is downloaded from SWA to the cost allocation system which is located on a PC. This file is subsequently reconciled with the hard copy of the MFR to verify the accuracy and completeness of the expenditure data. The allocation process is then completed using this file. To use any other cost data outside of the SWA file provided by other staff would compromise the integrity of the cost allocation system and result in an incomplete audit trail.

**Person Responsible**

Lyle Koenig

**Estimated Completion Date**

This process is currently in operation.

**Audit Finding #6**

**The department is not complying with certain state and federal reporting requirements for the Social Services block Grant (CFDA #93.667).**

**Audit Recommendation #6-1**

*The Department of Human Services should file annual expenditure reports with the federal government as required by 42 USC 1397(e).*

**DHS Response #6-1**

A Social Services Block Grant (Title XX) expenditure comparison report for federal fiscal years 1991 and 1992 is currently being circulated for review. It is anticipated that the report will be submitted to the appropriate federal agency in early June 1994. The 1993 report will be submitted by September 30, 1994 in accordance with Federal Regulations section 96.17, released November 15, 1993.

Section 2006 (42 U.S.C. 1397(e)) was revised by Public Law 100-485 in 1988. This section now provides for an annual report and that the report contain such information that includes, but is not limited to information specified in new subsection (c). New subsection (c) contains four major reporting areas, all tied to services.

1. number of children and adults reported separately receiving services and for each, the type of services and circumstances
2. amount spent in providing each service and for each type of service, the amount spent per child recipient and the amount spent for adult recipients
3. criteria applied in determining eligibility for services
4. methods by which services were provided showing separately the services provided by public agencies and those provided by private agencies and broken down in each case to reflect the types of services and circumstances involved

**DHS Response #6-1, Continued**

These requirements are modified, however, by the provision also in subsection (c) that "the secretary shall establish uniform definitions of services for use by the States in preparing the information required by this subsection....." The secretary published final regulations containing the uniform definitions of services Monday, November 15, 1993, Federal Register Volume 58, Number 218, pages 60118 - 60133, or well beyond the time when this information could be reasonably gathered or would be available for 1991 and 1992.

Without the service definitions, the States had no requirement to report on individual services, the type of services provided, who and how many received the services, amount spent in providing each type of service, eligibility criteria for services, and who provided the services. This doesn't appear to leave too much to report on when the stated purpose in Section 2006, subsection (a) is to determine the extent to which funds were spent in a manner consistent with the intended use report in Section 2004. The intended use reports for 1991 and 1992 included information on the types of activities to be supported by service, the categories or characteristics of individuals to be served, and the estimated amount of funds to be spent for each service.

**Person Responsible**

Gary Koehler

**Estimated Completion Date**

June 1994 and September 30, 1994

**Audit Recommendation #6-2**

*The Department of Human Services should either comply with the quarterly client reporting provision of state law, or seek to amend the provision to annual reporting if it is appropriate.*

**Audit Recommendation #6-2, Continued**

**DHS Response #6-2**

We will seek to amend the provision to call for annual reporting.

**Person Responsible**

Beth Holmgren

**Estimated Completion Date**

May 31, 1995

**Audit Finding #7**

The department's sampling methodology used to test eligibility is deficient for the Family Support Program (CFDA #93.560)

**Audit Recommendation #7**

*The Department of Human Services should modify the sampling methodology used to select testing samples for family support payments to ensure that all payments are subject to testing by the Quality Control Section.*

**DHS Response #7**

According to current Quality Control (QC) Federal regulations regarding sampling methodology, Minnesota is not deficient. Current regulations require issuances to appear in the QC universe from which the sample is selected only when the issuance month and the benefit month are the same as the sample month. The current regulations do not require states to sample initial payments when these payments are not issued in the sample month.

ADF-AT-93-21, dated December 10, 1993, requires states to include initial payments issued after the sample month in the QC universe. The effective date for inclusion is October, 1994. Minnesota will comply with the federal directive.

**Audit Recommendation #7, Continued**

**Person Responsible**

Mary Brogdon

**Estimated Completion Date**

Not applicable