

Department of Human Services
Programs Selected for
Fiscal Year 1994 Statewide Audit

April 1995

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Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

95-15

SUMMARY

State of Minnesota

Office of the Legislative Auditor

Centennial Office Building • St. Paul, MN 55155

612/296-4708

Department of Human Services

Programs Selected for Fiscal Year 1994 Statewide Audit

Public Release Date: April 28, 1995

No. 95-15

Objectives:

- Review Internal Control Structure: Various state and federal grants/aids.
- Test compliance with certain finance-related provisions.

Conclusions:

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

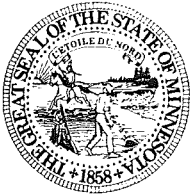
- The Department of Human Services encountered problems in processing Medicare and suspense file claims in the transition to the MMIS II computer system.
- The department has not prepared sufficient documentation of the MMIS II operational edits or systems maintenance.

We found one area where the department had not complied with finance-related legal provisions:

- The department is not in compliance with Minn. Stat. Section 256B.27, Subd. 2a. The law requires the department to annually perform on-site audits of at least 25 percent of nursing home participants as vendors of medical assistance. The department is planning to seek an amendment to this statutory provision in 1996.

Contact the Financial Audit Division for additional information.

296-1235



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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

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 completed a financial related audit of the Department of Human Services for the period July 1, 1993, through June 30, 1994, as outlined below, and as further discussed in the Introduction. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1994 financial statements and Single Audit. The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the department during fiscal year 1994.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit, and that we perform tests of the department's compliance with certain material provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures into the following federal and state programs. Federal financial assistance programs are categorized by a 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
- Substance Abuse Preventive Treatment Block #93.959
- Child Care Assistance CFDA #93.575
- General Assistance Medical Care
- Community Social Services Block Grant
- Cost of Residents' Care
- Medical Care Surcharge

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

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.

Audit of Nursing Home Providers in the Medical Assistance Program

The Department of Human Services is not in compliance with Minn. Stat. Section 256B.27, Subd. 2a. The law requires the department to annually perform on-site audits of at least 25 percent of nursing homes participating as vendors of medical assistance. Our review found that the department has completed on-site audits of 14.4 percent of nursing homes in fiscal year 1994. We reported this noncompliance issue in our audit report for fiscal year 1993. The department is planning to seek an amendment to this statutory provision in 1996.

Conclusions

Our audit disclosed the conditions discussed in findings 1 and 2 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.

Senator Phil Riveness, Chair
Members of the Legislative Audit Commission
Ms. Maria Gomez, Commissioner
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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. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is not a material weakness.

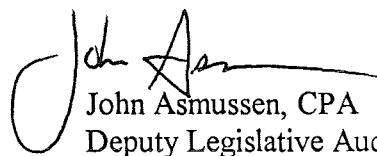
The results of our tests of compliance indicate that, except for the preceding paragraph related to audits of nursing home providers, with respect to the items tested, the Department of Human Services complied, in all material respects, with the provisions referred to in the audit scope paragraphs. Material 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. With respect to the items not tested, nothing else 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.

We also noted other matters involving the internal control structure and its operation and compliance with laws and regulations that we reported to the management of the Department of Human Services at the exit conference held on April 7, 1995.

This report is intended for the information of the Legislative Audit Commission and management of the Department of Human Services. This restriction is not intended to limit the distribution of this report, which was released as a public document on April 28, 1995.

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: March 10, 1995

Report Signed On: April 19, 1995

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
Pat Ryan	Auditor
Rhonda Regnier, CPA	Auditor
Margie Caneff	Auditor
Dale Ogren	Auditor
Laura Puig-White	Auditor
Gail Thurmer, CISA	Auditor
Deanna Hawkins	Intern
Trent Usitalo	Intern

Exit Conference

The findings and recommendations in this report were discussed with the following staff from the Department of Human Services on April 7, 1995:

John Petraborg	Deputy Commissioner
Denny Erickson	Assistant Commissioner
Jon Darling	Director of Financial Management
Cindy Turner	Director of Chemical Dependency
Ken Hasledelen	Director of Information Policy and Services
Larry Woods	Director of Health Care Operations
Patricia Harrison	Program Assistance Supervisor
Sandy Burge	MMIS II Policy Manager
Dan Schivone	MMIS II Coordinator

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
- physically handicapped Minnesota residents.

Maria Gomez was appointed Commissioner of the department by Governor Carlson on December 13, 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 1994 totaled approximately \$4.3 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 1994, 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 County food stamps are issued by an electronic benefit issuance system which is administered by the county.

We examined the Food Stamps Program (CFDA 10.551), which includes the coupons issued by the department's issuance operations center in St. Paul. For fiscal year 1994, the state issued food coupons to recipients totaling \$192,594,484. Inventory of food coupons on hand at June 30, 1994, is valued at \$44,242,058.

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 1994. Our audit scope included both of these revenue systems in the department. For fiscal year 1994, cost of care revenue was \$101,153,202 and medical care surcharge revenue was \$110,437,012.

Department of Human Services

Table 1-1
Department of Human Services
Summary of Expenditures
Year Ended June 30, 1994

	<u>Expenditures</u>
Federal Programs: (1)	
Medical Assistance - CFDA #93.778	\$2,425,379,835
States Family Support Payments - CFDA #93.560	396,485,388
Social Services Block Grant - CFDA #93.667	48,315,390
Foster Care - CFDA #93.658	42,898,858
Child Support Enforcement - CFDA #93.563	44,148,005
State Administration Food Stamps - CFDA #10.561	30,981,146
Jobs Opportunities/Stride - CFDA #93.561	21,051,383
Child Care Assistance - CFDA #93.575	11,007,725
Substance Abuse Preventive Treatment Block - CFDA #93.959	16,042,764
Food Stamps - CFDA #10.551	4,761,158
State Programs: (2)	
General Assistance Medical Care	162,455,990
Community Social Services Block Grant	53,397,355

Sources: (1) The federal programs are from Minnesota's Financial and Compliance Report on Federally Assisted Programs.

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

Current Findings and Recommendations

1. The Department of Human Services encountered problems in processing Medicare and suspense file claims in the transition to the MMIS II computer system.

The department encountered problems in developing the Medicaid Management Information System (MMIS II) to process Medicare electronic media claims. The department experienced problems in entering vendor invoices for electronic media claims on the computer system, causing a backlog of claims. The MMIS II system, implemented in May 1994, could not electronically enter and record all Medicare claims on the system. The system enters 20 percent of the claims through a scanner and 80 percent through an electronic media claims processor. The Medicare claims were not entered into MMIS II because the system tape formats were incompatible with the providers' claim tapes. The department designed the Medicare tape formats for the electronic media claims processor based on the original coordinated Medicare system design with the Medicare providers. After the design phase and during the development of the MMIS II system, the Medicare providers changed the tape formats used in submitting Medicare claims. The department did not make adjustments in the development of MMIS II for the change in the tape format. The development of MMIS II did not include any alternative procedures to record these claims. This resulted in the department not recording thousands of Medicare claims on the system. The total estimate of the unrecorded Medicare claims at June 30, 1994 was \$25 million.

The department had problems in accounting for the unprocessed provider invoices in the suspense file. The department experienced delays in processing invoices that increased the number of claims in suspense. The suspense file holds claims that could not be processed because a system edit fails to properly work. At June 30, 1994, the department did not have a procedure in place to record suspense file claims estimated at \$31 million. At the end of our MMIS II system review of the suspense file on, February 6, 1995, the suspense file totaled about 500,000 claims, an estimated liability of \$65 million. The department's goal is to reduce the number of suspended claims to 300,000, the same level as the original MMIS system.

The delays of processing claims, and the lack of alternative procedures to account for unprocessed claims, increases the potential for errors in payments to providers and increases the risk of unrecorded liabilities. In addition, the lack of accounting for unprocessed claims could result in inaccurate reporting of expenditures in the state's annual financial report.

Recommendations

- *The Department of Human Services should resolve the problems in processing the Medicare electronic media claims.*

Department of Human Services

Recommendations (continued)

- *The department should correct the edit problems experienced with MMIS II and reduce the number of claims in the suspense file.*
- *The department should properly account for its unprocessed claims liability.*

2. The Department of Human Services has not prepared sufficient documentation of the MMIS II operational edits or systems maintenance.

The department does not have an adequate method of identifying, sorting, or prioritizing the system edits by claim type, by subsystem, or as a system taken as a whole. The inability to sort system edits prevents users and maintainers of the system from efficiently verifying all edits are properly working. The current system documentation is volumes of narrative text pages. The format of the documentation does not provide an integrated ability for users or system maintainers to access the purpose or claim types associated with each edit. Inadequate system edit documentation prevents users of the system from understanding and applying the systems controls. This weakness, combined with the complex integrated design of the MMIS II system, increases the risk that errors or irregularities can occur and result in material misstatements and noncompliance with federal programs. In addition, nonintegrated system documentation results in inefficient operations and excessive operational costs.

Recommendation

- *The department should establish system edit documentation that provides the users and maintainers of the system an integrated ability to identify, sort, and prioritize system edits in an efficient and effective manner by claim type, by subsystem, and as a system taken as a whole.*



State of Minnesota
Department of Human Services

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

April 14, 1995

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, 1994. It is our understanding that these responses will be published with your final report.

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

Sincerely,

A handwritten signature in dark ink, appearing to read "John Felhaber", written over a horizontal line.

for MARIA R. GOMEZ
Commissioner

cc: Renee Redmer
Charles Gill

Audit Finding #1

The Department of Human Services encountered problems in processing Medicare and suspense file claims in the transition to the MMIS II computer system.

Audit Recommendation #1 - 1

The Department of Human Services should resolve the problems in processing the Medicare electronic media claims.

DHS Response #1 - 1

The Department of Human Services has been aggressively resolving problems associated with the processing of Medicare claims since implementation. The Department did have some difficulty in implementing the variety of Medicare formats and media, but had most of them resolved by September, 1994. Processing for the last carrier, *Travelers*, was begun in November, 1994. Currently, all Medicare crossover claims from all carriers are being entered into the system.

Person Responsible

Larry Woods

Estimated Completion Date

Corrective action has been completed.

Audit Recommendation #1 - 2

The Department should correct the edit problems experienced with MMIS II and reduce the number of claims in the suspense file.

DHS Response #1 - 2

The Department of Human Services has exceeded its goal of reducing the suspense file, and this finding is no longer an issue. The

DHS Response #1 - 2 (Continued)

"target" was not more than 300,000 claims in suspense, the historical number of claims held in suspense by MMIS I. This target goal was accomplished by April 7, 1995 when the volume in suspense was reduced to only 295,000. The Department continues to work on edit problems, and continues to provide education to providers for those claim submission problems which contribute to causing a claim to suspend, in order to further reduce the suspense balance and exceed the target goal.

Person Responsible

Larry Woods

Estimated Completion Date

Corrective action has been completed.

Audit Recommendation #1 - 3

The Department should properly account for its unprocessed claims liability.

DHS Response #1 - 3

All claim types and Medicare intermediaries are now being processed. A report of all claims in suspension will be generated in the last quarter of the fiscal year. Claims with a significantly higher value will be reviewed to continue to ensure that any claims with a significant dollar value which could materially affect providers' accounts are processed through the system on a timely basis.

Person Responsible

Larry Woods

Estimated Completion Date

Corrective action has been completed.

Audit Finding #2

The Department of Human Services has not prepared sufficient documentation of the MMIS II operational edits or systems maintenance.

Audit Recommendation #2

The Department should establish system edit documentation that provides the users and maintainers of the system an integrated ability to identify, sort, and prioritize system edits in an efficient and effective manner by claim, by subsystem, and as a system taken as a whole.

DHS Response #2

The Department has written documentation of all operational edits. This finding specifically refers to having that documentation on-line. The federal Health Care Financing Administration (HCFA) did not require this capability to be in place before certification as an operational MMIS eligible for enhanced federal financial participation. However, the Department does recognize the value that on-line edits review would provide for administration of the MMIS, and is considering adding that capability as we expand the functionality of this management information system.

Person Responsible

Sandy Burge

Estimated Completion Date

December 31, 1995