
Department of Human Services

Financial Audit

For the Fiscal Year Ended June 30, 1998

March 1999

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

99-17

SUMMARY

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Department of Human Services Financial Audit For the Fiscal Year Ended June 30, 1998

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No. 99-17

Agency Background

The Department of Human Services (DHS) administers a variety of programs that provide financial and medical assistance to eligible Minnesotans. The department administers an annual budget of nearly \$5 billion, including over \$2 billion of federal funds. The largest program, Medical Assistance, is the state's Medicaid program. The department provides other aid as cash benefits or food stamps. Mr. Michael O'Keefe was named the new commissioner in January 1999.

Audit Scope and Conclusions

Our audit scope was limited to the activities material to the State of Minnesota's general purpose financial statements for the year ended June 30, 1998. Our primary audit objective was to render an opinion on the State of Minnesota's financial statements. We also performed audit procedures to determine whether the Department of Human Services complied with the types of compliance requirements applicable to each of its major federal programs. The scope within the department included health care program grants (Medical Assistance, General Assistance Medical Care, and MinnesotaCare), income maintenance programs (Temporary Assistance to Needy Families and Food Stamps), other grants (Community Social Services, Chemical Dependency Treatment, Child Support Enforcement, Substance Abuse Prevention, Social Services Block, and Programs for the Aging), as well as material department revenue programs (Residential Treatment Center and Chemical Dependency Cost of Care Revenues, the Medical Provider Surcharge, and Child Support Collections).

We qualified our report, dated December 1, 1998, on the State of Minnesota's general purpose financial statements because insufficient audit evidence exists to support the State of Minnesota's disclosures with respect to the year 2000. Auditing the state's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the Department of Human Services is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Human Services does business will be year 2000 ready.

For the areas audited, the Department of Human Services' financial activities were fairly presented in the general purpose financial statements of the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. However, we found that the department did not ensure that certain legally required fund transfers were made.

For the federal programs tested, we found several instances of noncompliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. We found that the department did not audit the required number of nursing homes during fiscal year 1998, submitted inaccurate food stamps reports to the federal government, did not have a sufficient system to account for the Drug Rebate Program, did not have a process to determine suspended or debarred vendors, did not resolve subrecipient audit reports timely, and did not accurately calculate outstanding interest on federal cash.

In its response, the Department of Human Services agreed with the report's findings and recommendations and is taking corrective actions to resolve the issues.

Department of Human Services

Table of Contents

	Page
Management Letter	1
Status of Prior Audit Issues	9
Response from the Department of Human Services	11

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Michael Hassing	Auditor-in-Charge
Steve Johnson, CPA	Senior Auditor
Pat Ryan	Senior Auditor
Connie Stein	Senior Auditor
Keith Bispala	Staff Auditor
Jill Weber	Staff Auditor
Eric Roggeman	Intern

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Human Services on February 26, 1999::

Tom Moss	Acting Commissioner
Dennis Erickson	Assistant Commissioner
Jon Darling	Director of Financial Management
David Ehrhardt	Director of Internal Audit
Phillip Ohman	Accounting Manager



STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Michael O'Keefe, Commissioner
Department of Human Services

We have performed certain audit procedures at the Department of Human Services as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 1998. We also have audited certain federal financial assistance programs administered by the Department of Human Services as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. We emphasize that this has not been a comprehensive audit of the Department of Human Services.

Table 1-1 identifies the financial activities within the Department of Human Services that were material to the state's financial statements. We performed certain audit procedures on these Department of Human Services programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 1998, were free of material misstatement.

Table 1-1
Programs Material to the State's Financial Statements
Fiscal Year 1998
(in thousands)

	<u>Amount</u>
<u>Revenue Areas</u>	
Residential Treatment Center Cost of Care	\$127,253
Medical Provider Surcharge	123,161
Chemical Dependency Cost of Care	12,756
Child Support Collections	318,597
<u>Expenditure Areas</u>	
Medical Assistance	\$3,055,829
General Assistance Medical Care	119,366
MinnesotaCare	87,773
PST Alternative Care	46,577
Day Treatment and Habilitation	80,709
Temporary Assistance to Needy Families	287,415
Food Stamps	171,895
Food Stamps Administration	39,470
Community Social Services	54,269
Consolidated Chemical Dependency Treatment	60,267

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

Department of Human Services

We also audited certain statutory transfers from the Health Care Access Fund and other administrative transfers. We reviewed the June 30, 1998 reporting of asset and liability balances for the State Operated Community Services (SOCS) homes owned and run by the department.

Table 1-2 identifies the State of Minnesota's major federal programs administered by the Department of Human Services. We performed certain audit procedures on these Department of Human Services programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs.

Table 1-2
Major Federal Programs Administered by the Department of Human Services
Fiscal Year 1998
(in thousands)

<u>Program Name</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
Medicaid Cluster:			
Medical Assistance	\$1,659,244	\$1,396,585	\$3,055,829
State Survey & Certification of Providers	3,059	1,074	4,133
Food Stamps Cluster:			
Food Stamps	171,895	0	171,895
Food Stamps Administration	31,765	7,705	39,470
Temporary Aid for Needy Families	180,567	106,848	287,415
Child Support Enforcement	56,113	23,928	80,041
Social Services Block Grant	41,803	0	41,803
Substance Abuse Prevention & Treatment	20,580	0	20,580
Aging Cluster:			
Special Programs for the Aging – IIIB	6,920	793	7,713
Special Programs for the Aging – IIIC	6,071	2290	8,361

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

We qualified our report dated December 1, 1998, on the State of Minnesota's general purpose financial statements, because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on state operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. The state is currently addressing year 2000 issues related to its computer systems and other electronic equipment. During fiscal year 1996, the state established the Minnesota Year 2000 Project Office to develop and monitor the overall statewide effort for executive branch agencies. The project office is tracking over 1,300 mission-critical applications owned by state agencies. As of September 1998, the project office believed that 75 percent of the applications were compliant or had completed the necessary modifications. However, because of the unprecedented nature of the

Department of Human Services

year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Auditing the state's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the Department of Human Services is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Human Services does business will be year 2000 ready.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 1998, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

For the areas audited, the Department of Human Services financial activities were fairly presented in the general purpose financial statements of the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. However, we found the following instances of noncompliance with finance-related legal provisions or the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998.

1. The Department of Human Services did not ensure that required transfers from the Health Care Access Fund to the General Fund were made during fiscal year 1998.

Three required transfers totaling \$18,480,000 from the Health Care Access Fund to the General Fund were not made during fiscal year 1998. Laws of Minnesota 1998, Chapter 407, Article 1, Section 2, Subdivision 3 specifically requires the Human Services commissioner to transfer \$13,700,000 from the Health Care Access Fund to the General Fund to offset a projected savings to the General Assistance Medical Care Program. Laws of Minnesota 1997, Chapter 225, Article 7, Section 2, Subd. 1 and Section 3 contain a more general requirement to make transfers, without specifically naming the Human Services commissioner. The Department of Finance ultimately made the required transfers in November 1998. The Department of Human Services should work with the Department of Finance to make sure that all transfers are done timely. This would ensure that the department's financial activities are accurately presented in the state's accounting system and also in the state's financial statements.

Recommendation

- *The Department of Human Services should ensure that the transfers from the Health Care Access Fund to the General Fund are made on a timely basis in compliance with applicable legal citations.*

Department of Human Services

2. The Department of Human Services did not audit the required number of nursing homes during fiscal year 1998.

The department did not audit the minimum number of nursing home cost reports as required by statute and by the state plan for medical assistance. The department audited the cost reports at 60 of 413 homes during the fiscal year, or approximately 14.5 percent of all homes. The federal government requires the state to audit nursing homes that provide services to medical assistance participants. The state plan is the agreement approved by the federal government that specifically delineates the rules for these audits. In the state plan, the Department of Human Services agreed to audit the cost reports of at least 24 percent of the nursing homes in the state whose residents received medical assistance during fiscal year 1998.

In addition, the state plan conflicts with Minnesota statutes concerning nursing home cost report auditing. Although the state plan requires 24 percent of nursing homes participating as vendors of medical assistance to have on-site audits of cost reports each year, Minn. Stat. Section 256B.27 Subd.2a requires only 15 percent of the homes to be audited. The statute was revised in 1995; however, the department did not make any changes to the state plan at that time.

Recommendations

- *The department should comply with the provisions of the state plan and perform audit work at the required number of nursing home facilities.*
- *The department should make the necessary changes to ensure that the state plan for medical assistance is consistent with applicable state law regarding nursing home audits.*

3. The Department of Human Services submitted inaccurate food stamps reports to the federal government.

The Department of Human Services did not submit accurate reports to the federal government for food stamp issuances during part of fiscal year 1998. The department must report to the federal government on a monthly basis the amount of food stamp allocations issued through the electronic benefit transfer system. The department uses its MAXIS computer system to accumulate recipient data and calculate the income maintenance benefits available to recipients. However, due to programming changes the department needed to make to accommodate welfare reform, the system was not able to produce the required information for reporting purposes during part of fiscal year 1998. Therefore, the department filed inaccurate reports with the federal government.

Recommendation

- *The department should correct and resubmit the food stamp reports which were based on incorrect data during fiscal year 1998.*

Department of Human Services

4. PRIOR FINDING NOT RESOLVED: The Department of Human Services did not have a sufficient system of account for the Drug Rebate Program.

The department's drug rebate record keeping system lacks certain accounting functions to allow it to perform all functions necessary for the drug rebate program. This federal program requires drug labelers to rebate a part of the drug retail price to the Medicaid agencies for drugs purchased through the Medicaid (Medical Assistance) Program. The rebates result from the difference between normal retail costs and the negotiated contract prices. Rebates collected during fiscal year 1998 totaled \$34,859,916.

The drug rebate unit maintained spreadsheets to accumulate drug rebate financial data. It received program information from various sources. The MMIS II computer system provided the unit with the quarterly billable drug rebate amounts. MMIS II calculated these amounts based on paid pharmacy claims during the quarter and the unit rebate amount for each drug sold. The drug rebate analyst posts drug rebate collections to spreadsheets and another person verifies drug rebate payment and adjustment information to the spreadsheet. The department's Financial Management Unit recorded the drug rebate collections into the state's accounting system (MAPS).

The department did not monitor drug labelers for outstanding rebate amounts or charge interest on past due bills. The department sent quarterly bills to labelers only for the current quarter and did not include previously billed unpaid amounts. The department had outstanding rebate billings dating to 1991, the start of the program. Because of the inherent weaknesses in the current system to account for drug rebates, it is difficult to determine how much of the outstanding billings are still valid and collectible receivables.

Recommendations

- *The Department of Human Services should develop or obtain an accounting system for the Drug Rebate Program. The system should allow for:
 - periodic verification of the billing and receipt transactions affecting the accounts receivable balances, and
 - the identification of all outstanding drug rebate billings and collected amounts.*
- *The department should bill drug labelers for past due balances and should charge interest on these amounts.*

5. PRIOR FINDING NOT RESOLVED: The Department of Human Services did not have a process to determine suspended or debarred vendors.

The department did not have a process to determine whether a potential vendor had been suspended or debarred by the federal government prior to obligating federal funds. Federal Regulation 45CFR92.35 prohibits the state from purchasing items with federal money from vendors who have been suspended or debarred by the federal government. Vendors are suspended or debarred when the federal government determines, or is informed, that the vendors

Department of Human Services

have abused the public trust, perhaps by violating program provisions. The federal government expects every state to know who the suspended and debarred vendors are and have a process in place to prevent them from receiving federal funds.

We first reported this issue to the department in our fiscal year 1997 audit report. At that time, the department's purchasing personnel were unaware of the federal restrictions related to the payment of federal funds to suspended or debarred vendors. The department believes that the state's central purchasing function should be responsible for obtaining the certifications from vendors awarded contracts of \$100,000 or more, rather than individual state agencies. We agree that a central process for obtaining these certifications is a viable option for the state.

Recommendation

- *The department should ensure that federal funds are not being paid to vendors who are suspended or debarred by the federal government.*

6. The Department of Human Services did not resolve subrecipient noncompliance timely.

The department did not ensure that corrective actions were taken by subgrantees when audit reports identified instances of noncompliance with federal policies. The federal government requires certain subgrantees, based on the materiality of the funds they receive, to have a federal compliance audit in conjunction with their financial statement audit. Subgrantees submit these audit reports to the department's internal audit unit. That unit has the responsibility to review the subgrantee reports, determine whether there are any instances of noncompliance with federal policies, and monitor and ensure that corrective action is taken to correct the weakness. The Department of Finance has a policy that requires the subrecipient's corrective action be taken within six months after the department receives the audit report.

The department reviewed most of the audit reports it received during fiscal year 1998 and eliminated the backlog of unreviewed reports from prior years. However, the department did not issue sanctions for those subrecipients cited for noncompliance.

Recommendation

- *To ensure compliance with federal regulations and state policy, the department needs to monitor that subrecipients correct instances of noncompliance or impose sanctions against unresponsive subrecipients.*

7. The Department of Human Services did not accurately calculate outstanding interest on federal cash.

The department has used incorrect calculations on its reports of federal interest due and owing. The department is one of several state agencies with federal programs covered by the agreement that the Department of Finance entered into with the United States Department of the Treasury. The agreement sets forth guidelines that are to be followed in requesting and expending federal funds. The agreement allows the state to charge the federal government interest on funds received late, and conversely, requires the state to pay interest on funds not expended promptly.

Department of Human Services

The Department of Finance determines the statewide total of interest due and owing, based on interest reports submitted by state agencies.

The department did not accurately calculate outstanding interest on federal cash. Our testing of the expenditure dates reported on the draw down request forms found several errors resulting in incorrect interest calculations submitted to the Department of Finance. Errors occurred because the department did not always use the appropriate dates in recording federal expenditures. The department has developed a system whereby federal program accountants determine when expenditures are to be processed on MAPS. A federal cash accountant within the department uses this information to determine when to draw the federal cash and to determine the amount of interest either owed to or owed from the federal government.

Recommendation

- *The department should implement procedures to ensure that program accountants record actual and accurate expenditure dates on the federal draw down requests.*

This report is intended for the information of the Legislative Audit Commission and the 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 12, 1999.

James R. Nobles
Legislative Auditor

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: January 29, 1999

Report Signed On: March 8, 1999

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Status of Prior Audit Issues As of January 29, 1999

March 20, 1998, Legislative Audit Report 98-20 examined Department of Human Services activities and programs material to the State of Minnesota's Annual Financial Report or the Single Audit for the year ended June 30, 1997. The scope included the administration of the state's Medical Assistance and other health care programs, the various income maintenance programs, and other federal and state programs.

In the fiscal year 1997 report, we identified four instances of noncompliance in the Medical Assistance Program. We repeated one of these issues in our fiscal year 1998 report. We found that the department had not accurately accounted for its drug rebate accounts receivable or collected drug rebates in accordance with the federal drug contract. Although the department continues to explore changes to its drug rebate accounting system, it had not implemented the recommendations (see current Finding 4). We reported in our fiscal year 1997 report that the department did not complete all required reports or review override reports on a regular basis. We also reported that the department had paid for certain medical procedures without prior approval. We did not find instances of noncompliance with reporting or verifying payments during fiscal year 1998.

We also noted weaknesses in the department's processing and accounting for receipts. The department implemented our recommendations, primarily through the establishment of a separate collection facility.

Finally, we had reported that the department had not complied with certain federal requirements related to suspension and debarment. We found that the department had not made significant changes in their procedures in this area. Therefore, the department's noncompliance is reported in the fiscal year 1998 report as Finding 5. The department was more timely in their review of subrecipient audit reports as recommended in our fiscal year 1997 audit report. However, we found that the department was not adequately monitoring subrecipient corrective actions as cited in Finding 6 of this report.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.

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Minnesota Department of **Human Services**

March 5, 1999

James R. Nobles
Legislative Auditor
Centennial Office Building
658 Cedar Street
St. Paul, MN 55155

Dear Mr. Nobles:

The enclosed material is the Department of Human Services response to the findings and recommendations included in the draft audit report of the financial and compliance audit conducted by your office for the year ended June 30, 1998. It is our understanding that our response will be published in the Office of the Legislative Auditor's final audit report.

The Department of Human Services policy is to follow-up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact David Ehrhardt, Internal Audit Director, at (651) 282-9996.

Sincerely,

Michael O'Keefe
Commissioner

Enclosure

cc: Jeanine Leifeld
Michael Hassing

**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 1998**

Audit Finding #1

The Department of Human Services did not ensure that required transfers from the Health Care Access Fund to the General Fund were made during fiscal year 1998.

Audit Recommendation #1

The Department of Human Services should ensure that the transfers from the Health Care Access fund to the General Fund are made on a timely basis in compliance with applicable legal citations.

Department Response #1

We agree with the recommendation. All of the required transfers have been made by the Department of Finance for fiscal year 1998. The Department of Human Services has contacted the Department of Finance and will work closely with them to ensure that all future fund to fund transfers are made on a timely basis and are in compliance with applicable legal citations. Staff of the Department of Finance are in the process of establishing a procedure to identify and process all such fund to fund transfers, which will eliminate this problem.

Person Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: Transfers for FY 1998 have been completed. FY 1999 transfers will be made before June 30, 1999.

Audit Finding #2

The Department of Human Services did not audit the required number of nursing homes during fiscal year 1998.

Audit Recommendation #2-1

The Department should comply with the provisions of the state plan and perform audit work at the required number of nursing home facilities..

Department Response #2-1

The department agrees that we should follow the state plan. However, we are revising the current

**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 1998**

state plan to conform with state statutes.

Person Responsible: Greg TaBelle, Director, Long Term Care Audits

Estimated Completion Date: March 31, 1999

Audit Recommendation #2-2

The department should make the necessary changes to ensure that the state plan for medical assistance is consistent with applicable state law regarding nursing home audits.

Department Response #2-2

The department agrees with the recommendation. We are in the process of completing a revision to the state plan.

Person Responsible: Greg TaBelle, Director, Long Term Care Audits

Estimated Completion Date: March 31, 1999

Audit Finding #3

The Department of Human Services submitted inaccurate food stamp reports to the federal government.

Audit Recommendation #3

The department should correct and resubmit the food stamp reports which were based on incorrect data during fiscal year 1998.

Department Response #3

DHS agrees with the recommendation. MAXIS completed the programming changes and has produced the corrected food stamp data so that the food stamp reports can be amended. In December 1998, the department amended the July, August, and September 1998 food stamp reports. The January through June 1998 food stamp reports will be amended by March 15, 1999.

**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 1998**

Person Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: March 15, 1999

Audit Finding #4

PRIOR FINDING NOT RESOLVED: The Department of Human Services did not have a sufficient system of account for the Drug Rebate Program.

Audit Recommendation #4-1

DHS should develop or obtain an accounting system for the Drug Rebate Program. The system should allow for periodic verification of the billing and receipt transactions affecting the accounts receivable balances and the identification of all outstanding drug rebate billings and collected amounts.

Department Response #4-1

The department agrees with the recommendation. At the time of the FY 1997 audit report, the department was in the process of purchasing an integrated software system to administer the Drug Rebate Program. Subsequent to the report, the software development tool under consideration was sold to a foreign firm, introducing an element of instability to the development process. The department has subsequently signed a contract with a national firm to build a fully integrated system, with implementation now scheduled for July 1, 1999.

Person Responsible: Larry Woods, Director, Health Care Operations Division

Estimated Completion Date: July 1, 1999

Audit Recommendation #4-2

DHS should bill drug labelers for past due balances and should charge interest on these amounts.

Department Response #4-2

The department agrees with the recommendation, with the understanding that federal regulations prohibit billing and charging interest on unpaid amounts that are associated with disputes filed by

**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 1998**

drug manufacturers. The department can bill and charge interest only on past due amounts that are delinquent and not related to a dispute. At the present time, the unpaid balance related to the drug rebate program is \$5,692,444 of which only \$34,404 is delinquent and subject to billing and interest charges by the department.

Person Responsible: Larry Woods, Director, Health Care Operations Division

Estimated Completion Date: July 1, 1999

Audit Finding #5

PRIOR FINDING NOT RESOLVED: The Department of Human Services did not have a process to determine suspended or debarred vendors.

Audit Recommendation #5

The department should ensure that federal funds are not being paid to vendors who are suspended or debarred by the federal government.

Department Response #5 Although we agree that the department shouldn't pay vendors that are debarred or suspended by the federal government, the only viable solution to ensure that the state doesn't purchase goods or services from debarred or suspended vendors would be that the Departments of Finance and Administration properly update the state's vendor files. Because this type of finding would impact all agencies that receive federal money and the above two departments control the vendor lists, they are in the best position to determine the eligibility of vendors.

We have implemented procedures to manage our purchasing and contracting operations as follows:

- Our procurement buyers will continue to check the federal debarment list for each order processed that is \$100,000 or more.
- For professional and technical contracts we have Request For Proposal (RFP) management training scheduled for March 24th. At that time we will distribute materials, including the suspension and debarment certification for RFPs, and provide instructions. This will be followed by broader-based contracts training in April, where updated Contract Manual material will be distributed, and the certification again highlighted as a

**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 1998**

new requirement. Basically our process will be to require grantee and contractor certification that they have not been debarred or suspended by the federal government as part of the RFP process. Also, we are including language in our contract that they must inform the department if they are debarred or suspended under contract.

Person Responsible: Linda Nelson, Director, Management Services Division
Rae Bly, Director, Appeals & Regulations

Estimated Completion Date: April 30, 1999

Audit Finding #6

The Department of Human Services did not resolve subrecipient noncompliance timely.

Audit Recommendation

To ensure compliance with federal regulations and state policy, the department needs to monitor that subrecipients correct instances of noncompliance or impose sanction against unresponsive subrecipients.

Department Response #6

The department agrees that we did not apply sanctions against unresponsive subrecipients. Our goal wasn't to force compliance but to work with the subrecipients to gain their cooperation. The primary problem in gaining compliance were the changes in the federal regulations, the amount of misinformation about the changes, and how the changes applied to individual subrecipients. Almost 100 percent of our noncompliance was the nonsubmittal of audit reports not the lack of an adequate correction plan. During February 1999, we sent a letter to the program administrations recommending that they apply sanctions against two subrecipients.

The department believes that we adequately monitor subrecipient compliance. We accomplish this by having subrecipients submit to us, for our approval, a corrective action plan that covers the weaknesses noted in their audit report in accordance with A-133.400 (d). A-133.405 states that the pass through entity has six months after receiving the audit report to issue a management decision which would include acceptance of a corrective action plan. The grantee's Certified Public Accountant would then review the subrecipient's progress, in correcting the weakness, when they conduct their next year's audit. If the problem was not corrected, the next year's audit would have the same problem and then the department would have to work with the subrecipient

**Department of Human Services
Responses to the Legislative Audit Report
For the Year Ended June 30, 1998**

on a new corrective action plan or apply sanctions.

Person Responsible: David Ehrhardt, Director, Internal Audits Office

Estimated Completion Date: Completed

Audit Finding #7

The Department of Human Services did not accurately calculate outstanding interest on federal cash.

Audit Recommendation #7

The department should implement procedures to ensure that program accountants record actual and accurate expenditure dates on the federal draw down requests.

Department Response #7

The department agrees with this recommendation. The department will continue efforts to improve its federal cash management system. Based on the Department of Finance's payment dates we will be able in some cases to make draw downs a day or two earlier. The department will increase its monitoring of program draw down requests to ensure that proper dates are recorded and that draw downs are made timely.

Person Responsible: Jon Darling, Director, Financial Management Division

Estimated Completion Date: July 1, 1999