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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

**Department of Human Services**  
**Fiscal Year Ended June 30, 2006**



March 23, 2007

07-08

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## Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)

# Department of Human Services

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### Audit Participation

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

Cecile M. Ferkul, CPA, CISA	Deputy Legislative Auditor
Michael Hassing CPA, CISA	Audit Manager
Susan Kachelmeyer, CPA, CISA	Audit Coordinator
Pat Ryan	Team Leader
Sara Becker	Auditor
Jennifer Cooper	Auditor
Thom Derus	Auditor
Melanie Greufe	Auditor
Tenzin Tsering	Auditor
Mark Kliegle	Audit Intern

### Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Human Services on March 13, 2007:

Tim Wilkin	Assistant Commissioner
Anne Barry	Chief Compliance Officer
Marty Cammack	Financial Operations Director
David Ehrhardt	Internal Audit Director
Kathleen Henry	HCEA Director
Erin Sullivan-Sutton	Child Safety Director
Terri Engel	Accounting Operations Manager
David Ball	Budget Operations Manager
Mary Jo Ahlgren	Enrollment and Operations Manager

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## Report Summary

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### Key Findings:

- Prior Finding Not Resolved: The Department of Human Services did not accurately report federal spending in the state's federal financial reports. ([Finding 1, page 5](#))
- Prior Finding Not Resolved: The Department of Human Services did not adequately document certain eligibility determinations for the Adoption Assistance and State Children's Health Insurance programs. ([Finding 2, page 6](#))
- The Department of Human Services did not redetermine State Children's Health Insurance Program recipient's eligibility within the required timeframe and provided assistance to an ineligible recipient due to a failed system edit. ([Finding 3, page 7](#))
- The Department of Human Services did not have an adequate reconciliation process for Medical Assistance expenditures between the department's computer system and the state's computer system to ensure the appropriate use of federal funds. ([Finding 4, page 8](#))

### Key Audit Findings – Selected County Human Services Offices:

- Prior Finding Not Resolved: The counties did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations. (Hennepin and Ramsey)

The audit report contained six audit findings relating to internal control and legal compliance.
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### Audit Scope:

- Programs material to the State of Minnesota's fiscal year 2006 financial statements, including payments to counties for the administration of various programs, payments made through the department's eligibility system for family support programs, medical program expenses, and Medical Assistance drug rebates.
- Internal control and federal compliance over nine federally funded programs, such as Medical Assistance, State Children's Health Insurance Program, Temporary Assistance to Needy Families, Food Stamps, Child Support Enforcement, and Child Care.
- Testing of recipient eligibility for the Medical Assistance and Temporary Assistance for Needy Families programs at selected county human services offices.

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### Agency Background:

The Department of Human Services is responsible for administering many public assistance and social service programs. County human services offices determine eligibility for the state's public assistance programs.

**Department of Human Services**

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Cal Ludeman, Commissioner  
Department of Human Services

We have performed certain audit procedures at the Department of Human Services as part of our audit of the basic financial statements of the State of Minnesota for the year ended June 30, 2006. We also audited the state's compliance with applicable requirements governing the administration of federal awards for the year ended June 30, 2006, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

The Department of Finance is primarily responsible for statewide financial reporting. The department prepares the *Comprehensive Annual Financial Report* that contains the state's basic financial statements and our opinion on those statements. The Department of Finance also annually prepares the *Minnesota Financial and Compliance Report of Federally Assisted Programs*. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

The scope of our audit work at the Department of Human Services included:

- Activities that were material to the state's basic financial statements. These activities included payments to counties for the administration of various programs, payments made through the department's eligibility system for family support programs, medical program expenses, and Medical Assistance drug rebates. We performed certain audit procedures on these activities as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 2006, were free of material misstatement.
- Major federal programs administered by the Department of Human Services, as identified in Table 1. We performed certain audit procedures on these 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. We also audited the department's cash management practices

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and other general compliance requirements related to federal assistance. To support our conclusions on recipient eligibility for the Medical Assistance, State Children’s Health Insurance, and Temporary Assistance for Needy Families programs, we performed certain limited audit procedures at selected county human services offices. The *Circular A-133 Compliance Supplement* requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services’ benefit payment process. We have attached three county management letters to this report.

We emphasize that this has not been a comprehensive audit of the Department of Human Services.

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**Table 1**  
**Major Federal Programs**  
**Administered by the Department of Human Services**  
**Fiscal Year 2006 (in thousands)**

<u>Program Name</u>	<u>CFDA</u> <u>Number</u> <sup>(Note 1)</sup>	<u>Federal</u> <u>Expenditures</u>
Food Stamp Cluster: <sup>(Note 2)</sup>		
Food Stamps	10.551	\$ 281,023
Food Stamp Administration	10.561	\$ 43,828
Temporary Assistance for Needy Families	93.558	\$ 241,952
Child Support Enforcement	93.563	\$ 107,016
Child Care Cluster:		
Child Care and Development Block Grant	93.575	\$ 70,915
Child Care Mandatory and Matching Fund	93.596	\$ 51,101
Foster Care	93.658	\$ 59,183
Adoption Assistance	93.659	\$ 22,249
State Children’s Health Insurance Program	93.767	\$ 76,761
Medical Assistance Cluster:		
Medical Assistance	93.778	\$ 2,973,533
State Health Care Providers’ Survey	93.777	\$ 4,642
Hurricane Katrina Relief Program	93.776	\$ 298
Substance Abuse Prevention and Treatment Block Grant	93.959	\$ 22,949

Note 1: The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Note 2: A cluster of programs is a grouping of closely related programs that have similar compliance requirements and is treated as a single program.

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System for fiscal year 2006.

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### Conclusions

We issued an unqualified audit opinion,<sup>1</sup> dated December 14, 2006, on the State of Minnesota's basic financial statements for the year ended June 30, 2006. In accordance with *Government Auditing Standards*, we also issued our report, dated December 14, 2006, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. Our audit work at the Department of Human Services discovered errors in the department's process for calculating estimated liabilities for health care programs. The department also had control deficiencies in two areas that resulted in audit adjustments to its financial statement amounts. Because the Department of Finance is primarily responsible for the state's financial reporting process, we included these concerns in our report to the Department of Finance issued in March 2007 ([Legislative Audit Report #07-04](#)).

Except for the following findings, the Department of Human Services complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2006.

### Findings and Recommendations

**1. PRIOR FINDING NOT RESOLVED: The Department of Human Services did not accurately report federal spending in the state's federal financial reports.**

The department did not establish sufficient internal controls to ensure the reporting accuracy of federal program expenditures published in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*. Program accountants at the department relied on preliminary data supplied by the Department of Finance to calculate the federal programs' expenditure amounts. The preliminary information included most, but not all, accruals and adjustments to federal expenditures as reported in the State of Minnesota's financial statements.

Although the department had a smaller amount of audit adjustments on their federal expenditure schedules this year, the errors were similar to those identified last year. The errors included failing to correctly record expenditure accruals, misclassifying certain transactions, and including transactions that were not appropriate for the program. In some cases, the accountants did not report amounts in the federal program schedules consistent with amounts reported in the state's financial statements. These errors and inconsistencies resulted in audit adjustments to the federal expenditure schedules totaling nearly \$70 million.

In addition, the department did not coordinate its reporting efforts with the Department of Finance for the Temporary Assistance to Needy Families Program (TANF). The department received an additional \$13 million of bonus funds during fiscal year 2006. The department established an interagency agreement with the Department of Commerce to use the bonus funds

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<sup>1</sup> An unqualified audit opinion means that we concluded that the state fairly presented its financial data in its basic financial statements.

## Department of Human Services

for the Low Income Home Energy Assistance Program. Although the department correctly concluded that it would report these funds as TANF expenditures, it did not inform Commerce of this decision, which resulted in both agencies reporting the funds. The department also did not alert Finance to ensure that these funds were not double counted. The department's compliance with established reporting procedures is critical to the success of the state providing accurate information on its federal programs to the federal government.

### *Recommendation*

- *The department should improve controls over financial reporting by:*
  - *adequately training staff on preparing federal financial schedules;*
  - *verifying the accuracy and completeness of federal program schedules;*
  - and*
  - *coordinating reporting responsibilities with the Department of Finance and other agencies, as necessary, to ensure accurate reporting.*

## **2. PRIOR FINDING NOT RESOLVED: The Department of Human Services did not adequately document certain eligibility determinations for two federal programs.**

The department was missing certain key documentation to support recipient eligibility determinations for two federal programs - Adoption Assistance (CDFA 93.659) and State Children's Health Insurance Program (CFDA 93.767). It is important for the department to maintain complete documentation to show that eligibility determinations were correct.

The department did not have adequate documentation to support its review of eligibility determinations for the Adoption Assistance Program. If a child meets four specific criteria, the child's family is eligible to receive adoption assistance maintenance subsidies. The eligibility determinations originate with child placing agencies. The department requires the agencies to submit documentation supporting their eligibility determination. The department then reviews the documentation and verifies the agencies' determinations. Although there was some improvement in the department's documentation, eligibility files were incomplete for 5 of the 65 sample items tested this year. Ultimately, the department was able to obtain copies of the missing documentation for all but two sample items.

Our audit of the State Children's Health Insurance Program revealed the following documentation weaknesses:

- For 7 of 47 files tested, the department was unable to locate the original application form. The applicant or applicant's caretaker is responsible for providing the department with a completed application including proof of income, if applicable. The department requires this documentation to determine the applicant's eligibility.
- For 13 of 47 files tested, the department was unable to provide income verification worksheets. The department requires the MinnesotaCare enrollment representatives to calculate the recipient's income using an income worksheet for every initial and renewal application, even if the recipient does not have income.

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By not adequately documenting and maintaining applicant information, the department was unable to demonstrate that it complied with all federal eligibility requirements.

### *Recommendation*

- *The department should collect and maintain all documentation necessary to support its verification of eligibility and income determinations for the Adoption Assistance and the State Children's Health Insurance programs.*

### **3. The Department of Human Services did not comply with certain eligibility requirements for the State Children's Health Insurance Program.**

The department did not conduct eligibility verifications promptly and, as a result, the department paid aid to an ineligible recipient within the State Children's Health Insurance Program (CFDA 93.767). State statutes<sup>2</sup> require the department to obtain an eligibility renewal form every 12 months for all active households receiving federal and state assistance through the program. The 12-month period begins the month after the department approves the initial application.

The department was not timely in sending eligibility renewal forms to 11 of 47 recipients tested for the program, resulting in the following overpayments:

- The lack of timely verification of eligibility information resulted in the department paying approximately \$1,300 to an ineligible recipient. The department should have recalculated the recipient's eligibility in December 2004. However, the department did not determine eligibility until May 2005. As a result of the verification process, the recipient should have been ineligible for program benefits starting in January 2005 due to excess income. Without timely income verifications, the department could not ensure that it paid assistance to eligible recipients.
- In another case, the department provided benefits to a recipient with income that exceeded the program guidelines. In order to receive benefits, a recipient's household income must be between 100 and 200 percent of the federal poverty guidelines. The department incorrectly coded a recipient as eligible for the program in the state's Medicaid information system even though the household's income exceeded the 200 percent of the federal poverty guidelines cap. Although the department entered the household's correct income into the system, edits in the Medicaid information system did not properly match the eligibility code with the income discrepancy. The department was uncertain if the edit was by-passed or not working as expected. The result was that the department paid approximately \$3,800 in program benefits to an ineligible recipient.

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<sup>2</sup> [Minnesota Statutes 2005, 256L.05 Subdivision 3a.](#)

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### *Recommendations*

- *The department should verify State Children's Health Insurance Program recipient eligibility in accordance with federal and state time requirements.*
- *The department should review and improve eligibility controls over the State Children's Health Insurance Program, including system edits.*
- *The department should determine if it made payments to other ineligible recipients due to system edits not performing as expected.*
- *The department should repay federal funds expended in error.*

#### **4. The Department of Human Services used federal funds to pay for the state's share of certain transportation fees for the federal Medical Assistance Program.**

The department incorrectly used federal funds to pay the state's share of Medical Assistance (CFDA 93.778) transportation administration fees. In July 2005, the department established an estimated budget in a new state account to record this activity. In February 2006, there was not enough money in the specific fund-level account to pay the state share of these costs. In order for the transactions to be processed, the department used the related federal account to cover the full amount of the transportation costs. This funding discrepancy continued for nine payments between March 2006 and June 2006, resulting in a total amount charged in error to the federal account of \$600,219. The department established new accounts at the beginning of fiscal year 2007, which corrected the funding allocation problem.

Although the department reconciled the total expenditures processed on the Medicaid information system to the payments made through the state's accounting and procurement system, the reconciliation did not validate that the payments used the correct source of funds. Due to the errors we discovered as part of our review of the reconciliation process, the department repaid the federal funding for the amount of the error.

### *Recommendation*

- *The department should develop a fund level reconciliation that would discover potential funding allocation errors in a timely manner.*

#### **5. Some reports the Department of Human Services submitted to the federal government were inaccurate and late.**

The department did not maintain sufficient internal controls to ensure the timeliness of reports for three of its federal programs - the Medical Assistance Program (CFDA 93.778), the State Children's Health Insurance Program (CFDA 93.767), and the State Survey and Certification of Health Care Providers and Suppliers (CFDA 93.777). The department did not submit its

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quarterly reports<sup>3</sup> to the federal government within 30 days after the end of the quarter, as required by federal regulation. During fiscal year 2006, the department electronically filed the reports from 67 to 109 days after the end of the quarter.

In addition, the department did not report MinnesotaCare taxes collected during fiscal year 2006 for the Medical Assistance Program. The department is required to report health care related taxes, fees and assessments collected under Public Law 102-234<sup>4</sup> to the federal Center for Medicare and Medicaid Services at least annually. The department has included these taxes on its quarterly reports in previous years. The amount of unreported taxes collected during fiscal year 2006 was approximately \$372 million.

### *Recommendation*

- *The department should improve its reporting process to ensure timely and accurate completion of all of its federal reports.*

## **6. The Department of Human Services did not comply with federal regulations when allocating salaries to one federal program.**

The department did not comply with federal regulations<sup>5</sup> when charging salaries and other employee compensation to the Child Care and Development Cluster (CFDA 93.575 and 93.596). The department did not prepare the required certifications or activity reports for 3 of 36 employees charging time to the Child Care Program. For two other employees, the department allocated their time to multiple funding sources when they actually worked on one federal program.

Federal regulations identify standards for time distribution and payroll documentation which state that employees who have multiple funding sources must have a salary distribution supported by personnel activity reports or equivalent documentation. This documentation must reflect the actual activity of each employee and account for the total activity of all programs that the employee is working on. Employees who work on only one federal program must support their federal salary charges with periodic certifications that are signed by themselves and their supervisors attesting that they actually worked only on that program for the period covered by the certification.

In addition, the department's certification process does not accommodate a certification for an employee no longer working for the department. The process requires an electronic signature by the employee and the supervisor. If the employee is no longer working for the department, the certification process gets stalled. To clear the certifications for three former employees in the Child Care Program, financial management staff inappropriately signed the certifications as the employees and the supervisors, even though they had no knowledge of the former employees' responsibilities.

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<sup>3</sup> Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64). This report shows certain federal grant activity, including awards and expenditures.

<sup>4</sup> Medicaid Voluntary Contribution and Provider-Specific Tax Amendments of 1991 (Public Law 102-234).

<sup>5</sup> U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

## Department of Human Services

### *Recommendations*

- *The department should support its direct charges of salaries and other employee compensation to federal programs, as required by federal regulation.*
- *The department should improve internal controls over its certification process by enforcing system edits and controls.*

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 23, 2007.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

End of Fieldwork: January 31, 2007

Report Signed On: March 19, 2007

## Department of Human Services

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### Status of Prior Audit Issues As of January 31, 2007

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**March 13, 2006, Legislative Audit Report 06-10** examined the Department of Human Services' activities and programs material to the State of Minnesota's *Comprehensive Annual Financial Report* and the Single Audit for the year ended June 30, 2005. The report contained seven findings directed to the department. The department resolved four of these findings. We repeated the issue related to eligibility documentation for the Adoption Assistance and the State Children's Health Insurance Program as Finding 2 of this report. We also repeated the issue of reporting accuracy of federal program expenditures in the schedule of federal expenditures as Finding 1. We did not repeat the finding on the monthly adoption assistance maintenance fee, but we expect the department to continue its efforts to resolve this issue. The report also included five findings resulting from our eligibility testing at the county level. We have repeated two of these issues as partially or not resolved in the county management letters attached to this year's report.

**August 18, 2005, Legislative Audit Report 05-46: Minnesota Board on Aging** reviewed the internal controls and compliance over aging cluster grants, payroll, and administrative expenditures for the four years ended June 30, 2005. The report contained four findings, including Finding 1 that related to the aging cluster. The finding stated that Department of Human Services' staff assigned to the Board on Aging did not complete a required federal report and could not provide documentation to support amounts on other reports. During the Department of Human Services audit, we determined if the staff had completed the report and reviewed it for accuracy. We noted reporting issues discussed in Finding 7 of report 06-10. The department has resolved these findings.

#### Other Office of the Legislative Auditor Coverage

**January 2007, Program Evaluation Report on Human Services Administration** reviewed the administrative framework for Minnesota's large and complex human services system. The system – which spends several billion dollars each year – relies on close coordination between the state's Department of Human Services and Minnesota's 87 counties. The evaluation determined that the state-county partnership has strengths but also significant challenges. Some of the challenges are that human service access, cost, and outcomes vary significantly around the state. In addition, the complexity in laws and administrative requirements has made administration of services burdensome, especially for small counties. The report contained several findings and recommendations for the department, counties, and the Legislature.

**April 2006, Program Evaluation Report on Public Health Care Eligibility Determination for Non-citizens** reviewed the eligibility determination for three publicly funded health care programs—Medical Assistance (Minnesota's Medicaid Program), General Assistance Medical Care, and Refugee Medical Assistance. The evaluation determined what benefits non-citizens receive and the demographic characteristics of the non-citizens, and examined the extent to which county case workers properly determine applicants' immigration status, and identify and count sponsors' income when determining eligibility for public assistance. The report contained several findings and recommended two ways that the department could strengthen eligibility determination for non-citizens.

**February 2006, Program Evaluation Report on Child Support Enforcement** reviewed the performance and administration of the Child Support Enforcement Program. The evaluation determined the challenges faced in administering a cost-effective program that provides consistent services throughout the state, and examined the actions the state could take to improve the program's performance. The report contained several findings and recommended five ways that the Legislature and the department could strengthen program accountability.

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**February 2006, Program Evaluation Report on Substance Abuse Treatment** reviewed the treatment use and availability in Minnesota, including variation among counties. The evaluation examined the effectiveness of substance abuse treatment programs and the use of reasonable methods to determine individuals' needs for substance abuse treatment. The report contained several findings and recommended 14 ways that the Legislature and the department could strengthen the effectiveness and availability of substance abuse treatment.

### Other Audit Coverage

**June 2006, Department of Human Services Food Support Program Quality Control Accuracy Report** was published by the Program Assessment and Integrity Division and sent to the U.S. Department of Agriculture. The report contained a summary of errors and questioned costs uncovered through the department's food support quality control activities for the 2006 federal fiscal year through February 2006.

**September 2006, Department of Human Services Internal Audits Office** conducted a financial and compliance audit of the Greater Minneapolis Day Care Association. The department received allegations from an outside source that the Greater Minneapolis Day Care Association was misusing federal funds passed through from the department. The report contained 18 findings and several other issues.

**July 2006, Office of Inspector General Report A-05-06-00023** conducted a review of undistributable child support collections in Minnesota. The Office of Inspector General determined whether the Department of Human Services appropriately reported program income for undistributable child support collection and interest earned on program funds. The Office of Inspector General found that for the quarters ended December 1998 through December 2005, the Department of Human Services did not recognize or report program income of \$42,789 (\$28,240 federal share) for collections held more than three years and presumed abandoned according to state requirements. This amount consisted of unclaimed collections totaling \$23,943 (\$15,802 federal share) and \$18,846 (\$12,438 federal share) in uncashed checks that the state agency did not transfer to the commissioner of Commerce.

**September 2006, Office of Inspector General Report A-05-05-0040** conducted a review on Medicaid school-based administrative costs in Minnesota from July 1, 2003, through June 30, 2004, to determine whether the Department of Human Services' Medicaid claims for certain school districts' school-based administrative costs were allowable in accordance with federal and state requirements. The Office of Inspector General found that of the \$26,852,175 (\$13,426,088 federal share) claimed for the 60 school districts reviewed, \$7,373,175 (\$3,686,588 federal share) was allowable and \$19,479,000 (\$9,739,500 federal share) was unallowable. The Department of Human Services agreed that costs may be allocated only to the extent that they relate to Medicaid-eligible children and said that it had changed its allocation formula to be consistent with the expectations in the CMS guidance. However, the Department of Human Services did not agree to refund the \$9,739,500, along with an unspecified amount related to unaudited agencies, or to implement the other recommendations.

#### 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.

March 19, 2007

James R. Nobles, Legislative Auditor  
Office of the 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, 2006. 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) 431-3619.

Yours sincerely,

*/s/ Cal R. Ludeman*

Cal R. Ludeman  
Commissioner

Enclosure

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2006**

Audit Finding #1

PRIOR FINDING NOT RESOLVED: The Department of Human Services did not accurately report federal spending in the state's federal financial reports.

Audit Recommendation #1

*The department should improve controls over financial reporting by adequately training staff on preparing federal financial schedules; verifying the accuracy and completeness of federal program schedules; and coordinating reporting responsibilities with the Department of Finance and other agencies, as necessary, to ensure accurate reporting.*

**Department Response #1**

The department agrees with the recommendation. The department will continue its effort to increase management review of the federal program schedules to assure that they are consistent with amounts reported in the state's financial statements. The department will also continue its effort to work with the Department of Finance to improve the reporting of human service programs' financial statement accruals and reclassifications.

**Person Responsible:** Martin Cammack

**Estimated Completion Date:** February 29, 2008

Audit Finding #2

PRIOR FINDING NOT RESOLVED: The Department of Human Services did not adequately document certain eligibility determinations for two federal programs.

Audit Recommendation #2-1

*The department should collect and maintain all documentation necessary to support its verification of the adoption assistance eligibility determinations.*

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2006**

**Department Response #2-1**

The department agrees with the recommendation.

In response to last year's audit, the department revised the forms used by certifying agencies to complete eligibility determinations for adoption assistance. The department distributed the revised forms to all certifying agencies, provided training on the forms, and, effective November 1, 2006, mandated that all new applications for adoption assistance be submitted using the revised eligibility forms. Before the department approves adoption assistance for a child, department staff will ensure that all necessary eligibility documentation has been collected from the certifying agency. The department will continue to collect and retain all documents that verify adoption assistance eligibility in the departmental adoption assistance case record.

While the department made changes to the forms last year to address this finding, these changes only impact eligibility determinations of adoption assistance applications made subsequent to November 1, 2006. Since eligibility determinations for adoption assistance are completed only when the initial application for adoption assistance is made; a child determined as eligible then continues to receive adoption assistance to either age 18 or 21. Future audits that include cases certified as eligible for adoption assistance prior to November 1, 2006, will continue to require the department to gather supporting documentation from the certifying agency.

**Person Responsible:** Erin Sullivan-Sutton

**Estimated Completion Date:** June 30, 2007

**Audit Recommendation #2-2**

*The department should collect and maintain all documentation necessary to support its verification of eligibility and income determinations for the State Children's Health Insurance Program.*

**Department Response #2-2**

The department agrees with the recommendation. The department will review the sample cases which were cited for lacking supporting documentation in the electronic file. We will identify the causes of the lack of documentation, and strategies will be developed to eliminate them.

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2006**

Some strategies are already in place and include; a new electronic case review document, improved delivery of new and experienced worker training and coaching and improved systemic processes related to electronic document management.

**Person Responsible:** Kathleen Henry

**Estimated Completion Date:** October 1, 2007

Audit Finding #3

The Department of Human Services did not comply with certain eligibility requirements for the State Children's Health Insurance Program.

Audit Recommendations #3

- *The department should verify State Children's Health Insurance Program recipient eligibility in accordance with federal and state time requirements.*
- *The department should review and improve eligibility controls over the State Children's Health Insurance Program, including system edits.*
- *The department should determine if it made payments to other ineligible recipients due to system edits not performing as expected.*
- *The department should repay federal funds expended in error.*

**Department Response #3**

The department agrees with the recommendations.

Recommendation #3-1

The department will review the sample cases cited for failure to evaluate State Children's Health Insurance Program (SCHIP) eligibility in a timely manner. Upon review, strategies will be developed to address the shortcomings and improve the compliance with federal and state requirements and timelines.

Staffing and work queue assignments have already been altered to assure eligibility reviews are completed in a timely manner,

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2006**

Recommendations #3-2 and 3-3

The department will review the two sample cases in error to determine the cause of the inaccurate eligibility determination for SCHIP. In addition, the department will review another sample of SCHIP cases that had eligibility determined during the same time period as the sample cases to determine if there is further concern related to system edits. Strategies will be developed in response to the results of the expanded review.

Electronic case reviews have already been implemented to address this concern

Recommendation #3-4

The department will determine the amount of federal funds expended in error. A review of the two sample cases has determined that they are not eligible for SCHIP federal funds (65%) but, are eligible for MinnesotaCare federal funds (50%). The difference will be repaid.

**Person Responsible:** Kathleen Henry

**Estimated Completion Date:** October 1, 2007

Auditing Finding #4

The Department of Human Services used federal funds to pay for the state's share of certain transportation fees for the federal Medical Assistance Program.

Audit Recommendation #4

*The department should develop a fund level reconciliation that would discover potential funding allocation errors in a timely manner.*

**Department Response #4**

The department agrees with the recommendation. The department will implement procedures for reconciling the Medicaid payment system to the posting of transactions on the state's accounting system to include steps that ensure the amounts posted are accurate -- both in total, and fund by fund.

**Person Responsible:** Martin Cammack

**Estimated Completion Date:** June 30, 2007

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2006**

Audit Finding #5

Some reports the Department of Human Services submitted to the federal government were inaccurate and late.

Audit Recommendation #5

*The department should improve its reporting process to ensure timely and accurate completion of all of its federal reports.*

**Department Response #5**

The department agrees with the recommendation. Recent additional federal reporting requirements, coupled with the department's existing manual reconciliation process, have made it nearly impossible to obtain and process the data needed to complete the reports on a timely basis. The department is addressing this situation as follows: (1) an agreement has been negotiated with the local CMS auditor that allows the department to submit the reports prior to completion. Then, when all data is available for the quarter, the reports will be uncertified, completed and resubmitted, and (2) the department has initiated a project to re-engineer the existing manual reconciliation process to make optimal use of technology and automation. The new process will be designed with strong internal controls, yet provide the flexibility necessary to respond to the ever-changing federal and state reporting requirements.

**Person Responsible:** Martin Cammack

**Estimated Completion Date:** June 30, 2008

Audit Finding #6

The Department of Human Services did not comply with federal regulations when allocating salaries to one federal program.

Audit Recommendation #6

- *The department should support its direct charges of salaries and other employee compensation to federal programs, as required by federal regulation.*
- *The department should improve internal controls over its certification process by enforcing system edits and controls.*

**Department of Human Services  
Response to the Legislative Audit Report  
For the Year Ended June 30, 2006**

**Department Response #6**

The department agrees with the recommendation. The department has procedures designed to support its direct charges of salaries and other employee compensation to federal programs. The department will improve internal controls over its certification process by enforcing system edits and controls.

**Person Responsible:** Martin Cammack

**Estimated Completion Date:** March 31, 2007

**Department of Human Services**

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dorothy Opheim, Human Services Director  
Cass County

We have performed certain audit procedures at Cass County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2006. The objectives of our work at Cass County were to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the State Children's Health Insurance (CFDA #93.767), Medical Assistance (CFDA #93.778), and Temporary Assistance for Needy Families (CFDA #93.558) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. Our work was very limited in scope and was not a comprehensive audit of Cass County.

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

We identified the following written finding and recommendations as a result of our work at Cass County for fiscal year 2006. We will include this finding in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

**1. Cass County had weaknesses in its eligibility determination process for the Medical Assistance Program (CFDA #93.778).**

Cass County did not properly use the state's Department of Human Services (DHS) eligibility determination system (MAXIS) and the state's benefit recovery unit to determine the cost effectiveness of an applicant's existing health insurance. The county did not input the other insurance coverage in the appropriate MAXIS panel, thus circumventing the edits and other controls in the eligibility system. Eligibility for the Medical Assistance Program is not affected due to the availability of other health coverage. However, an applicant may be required to enroll in or maintain group or private health insurance if that coverage is deemed cost effective.

## Cass County

Without complete information, the state and the county cannot determine the most cost effective way to deliver services.

Cass County also did not perform a required income review and did not terminate medical assistance for one recipient in a timely manner. The Medical Assistance Program requires clients to periodically submit income renewal forms. In most cases, income renewals are required on a six-month basis. However, children born to women who applied for assistance before or after the birth and who were eligible at the time of the birth are automatically eligible and remain eligible through the month of their child's first birthday without regard to income, assets, or household composition as long as the child continues to live with the mother in Minnesota.

Cass County did not initiate an income review before the child turned one year old in January 2006, as required. The county subsequently requested the income information in April. However, the parent failed to submit the appropriate information, and the case automatically closed in May 2006. The state paid approximately \$450 of federal medical assistance benefits on behalf of the child without the proper income verification.

### *Recommendations*

- *Cass County should provide complete insurance information to the Department of Human Services in order to determine the most cost effective way to deliver medical benefits.*
- *Cass County should ensure that it follows all established procedures for income verification.*

This management letter is intended for the information of the Legislative Audit Commission and the management of Cass County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 23, 2007.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

End of Fieldwork: July 13, 2006

Report Signed On: March 19, 2007



**Cass County Health, Human & Veterans Services**

Dorothy Opheim, Director

**Human Services Division**  
P.O. Box 519, Walker, MN 56484  
218-547-1340  
Fax 218-547-1448

**Public Health Division**  
P.O. Box 40, Walker, MN 56484  
218-547-1340  
Fax 218-547-7232

**Veterans Services Division**  
P.O. Box 1265, Walker, MN 56484  
218-547-1340  
Fax 218-547-7252

February 6, 2007

Senator Ann H. Rest, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

The Legislative Audit conducted in 2006 indicated findings that Cass County had weaknesses in its eligibility determination process for the Medical Assistance Program (CFDA #93.778). In response to the recommendations provided, Cass County will take the following action:

- It was recommended that Cass County should provide complete insurance information to the Department of Human Services in order to determine the most cost effective way to deliver medical benefits.
- It was recommended that Cass County should ensure that it follows all established procedures for income verification.

Although it has always been the goal of the county to adhere to all regulations and procedures, to ensure greater compliance in these area, the two Mentors (to be overseen by Brenda J. Erickson, Financial Assistance Supervisor) will conduct staff training on the regulations and pertinent procedures regarding cost effective medical benefits and income verification for the Medical Assistance Program by February 28, 2007. As a follow up on worker compliance after training, targeted case reviews will be completed by the Mentors and Financial Assistance Supervisor in 2007.

Thank you.

Sincerely,

  
Dorothy Opheim, Director

  
Brenda J. Erickson, Financial Assistance Supervisor

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Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Daniel Engstrom, Assistant County Administrator  
Hennepin County

We have performed certain audit procedures at Hennepin County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2006. The objectives of our work at Hennepin County were to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the State Children's Health Insurance (CFDA #93.767), Medical Assistance (CFDA #93.778), and Temporary Assistance for Needy Families (CFDA #93.558) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. As part of our work, we also determined the status of our prior year findings. Our fiscal year 2005 report (Legislative Audit [Report 06-10](#)) contained two findings addressed to Hennepin County. One of those findings is repeated in this management letter. Our work was very limited in scope and was not a comprehensive audit of Hennepin County.

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

We identified the following written finding and recommendation as a result of our work at Hennepin County for fiscal year 2006. We will include this finding in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

**1. PRIOR FINDING NOT RESOLVED: Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.**

Hennepin County made improvements to its income discrepancy resolution process. However, it did not resolve income discrepancies identified by the Income Eligibility and Verification System (IEVS) at the level required by federal regulations. In order to comply with federal

## Hennepin County

requirements, the state Department of Human Services (DHS) coordinates data exchanges with other sources for the Temporary Assistance for Needy Families and the Medical Assistance programs. This data exchange, called IEVS, includes comparing income information submitted by applicants with income and tax information obtained from other state and federal sources, such as the Minnesota Department of Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. The state did not meet this requirement. Hennepin County is a significant contributor to that compliance concern. For the period May 1, 2005, through April 30, 2006, Hennepin County's overall resolution rate was 70 percent. However, we noted that Hennepin County made significant improvements in the second half of our scope. The county's IEVS resolution compliance averaged 75 percent for December 1, 2005, through April 30, 2006, as compared to 63 percent for May through November 30, 2005. The county's resolution rates in fiscal years 2005 and 2004 were 59 and 63 percent, respectively.

### *Recommendation*

- *Hennepin County should continue to make improvements toward resolving all Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

This management letter is intended for the information of the Legislative Audit Commission and the management of Hennepin County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 23, 2007.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

End of Fieldwork: July 24, 2006

Report Signed On: March 19, 2007



## Hennepin County

**Corrective Action Plan:** Year Ended June 30, 2006

**Finding #: 1** – Prior Finding Not Resolved: Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.

**State/Federal Agency:** Minnesota Department of Human Services/HHS

**Program Name:** Medical Assistance and Temporary Assistance for Needy Families

**CFDA # and Program Expenditures:** 93.767 and 93.778

**Department:** HSPHD

**Recommendation:** Hennepin County should continue to make improvements toward resolving all Income Eligibility Verification System (IEVS) discrepancies in a timely manner.

### Action Plan:

1. *Please describe what action you plan to take to implement the recommendation or identify alternative corrective actions that may be employed. The action plan must state the name of the contact person responsible for the corrective action.*

*Hennepin County continued to make steady and encouraging strides in this area during 2006. After the OLA audit in July 2006, an additional full time position was dedicated to processing IEVS matches. This resulted in a resolution rate of 86% in the third quarter of 2006. However, because this has historically been an area in which we struggle to meet the federal guidelines, four additional positions were approved for the County's Debt Establishment Unit in the 2007 budget. This will allow DEU to take responsibility for clearing all IEVS matches, including health care related matches, in the future. Once the hiring of the additional staff in DEU is complete, the function of IEVS will be consolidated in one area which will allow for sufficient staff for the job and establish clear accountability for meeting the processing standards. Tom Pingatore and Maureen Headbird will be the contact persons responsible for ensuring this plan is carried out.*

2. *Please include an anticipated completion date for the corrective action. If you have already implemented the corrective action, please give the implementation date.*  
*Staff should be hired during the first quarter of 2007.*

3. *Please provide a brief description of the procedures that you have done or will do for resolution of any questioned costs related to the findings, if applicable.*  
[See #1 above.](#)

**Mary H. McDowell**

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**Name/Title of Person Completing the Corrective Action Plan**

**12/18/06**

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**Date Completed**



Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Mr. Monty Martin, Director of Human Services  
Ramsey County

We have performed certain audit procedures at Ramsey County as part of our audit of the State of Minnesota's major federal programs for the year ended June 30, 2006. The objectives of our work at Ramsey County were to review internal controls and compliance over recipient eligibility for certain federal public assistance programs. This work was done in conjunction with our audit of the Minnesota Department of Human Services to determine whether the department complied with the federal eligibility requirements applicable to the State Children's Health Insurance (CFDA #93.767), Medical Assistance (CFDA #93.778), and Temporary Assistance for Needy Families (CFDA #93.558) programs, as described in the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*. The compliance supplement requires us to audit recipient eligibility determinations at the county level as part of our audit of the Department of Human Services' benefit payment process. As part of our work, we also determined the status of our prior year findings. Our fiscal year 2005 report (Legislative Audit [Report 06-10](#)) contained two findings addressed to Ramsey County. One of those findings is repeated in this management letter. Our work was very limited in scope and was not a comprehensive audit of Ramsey County.

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

We identified the following written finding and recommendation as a result of our work at Ramsey County for fiscal year 2006. We will include this finding in our report on compliance with requirements applicable to each State of Minnesota major federal program and internal control over compliance in accordance with OMB Circular A-133.

**1. PRIOR FINDING NOT RESOLVED: Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in the timeframes required by federal regulations.**

Ramsey County has improved its resolution rate for income discrepancies identified by the Income Eligibility and Verification System (IEVS), but has not attained the level required by federal regulations. The state Department of Human Services (DHS) coordinates data

exchanges with other sources for the Temporary Assistance for Needy Families and the Medical Assistance programs. This data exchange, called IEVS, includes comparing income information submitted by applicants with income and tax information obtained from other state and federal sources, such as the Minnesota Department of Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. The state did not meet this requirement. Ramsey County is a significant contributor to that compliance concern. For the period May 1, 2005, through April 30, 2006, Ramsey County's resolution rate was 71.6 percent. The county's resolution rates in fiscal years 2005 and 2004 were 70.5 and 65 percent, respectively.

*Recommendation*

- *Ramsey County should continue to work with the Department of Human Services to resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.*

This management letter is intended for the information of the Legislative Audit Commission and the management of Ramsey County. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 23, 2007.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA, CISA  
Deputy Legislative Auditor

End of Fieldwork: June 30, 2006

Report Signed On: March 19, 2007



## Community Human Services Department

160 Kellogg Blvd E  
St. Paul, MN 55101-1494

Financial TDD: 651-266-3750  
Services TDD: 651-266-4002  
General Info: 651-266-4444

January 8, 2007

Michael Hassing, CPA  
Audit Manager  
Office Of The Legislative Auditor  
Room 140 Centennial Building  
658 Cedar Street  
St Paul, MN 55155-1603

Dear Mr. Hassing:

We have received the draft management letter summarizing the results of our 2006 audit. The following issue was identified as needing resolution.

**1. Prior Finding Not Resolved: Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in the time frames required by federal regulations.**

As you noted in your letter we have made some improvement over the last two years in resolving income discrepancies identified by the Income Eligibility and Verification System (IEVS) but we have still not attained the 80% level required by federal regulations. Our failure to meet the 80% timely resolution level has also been cited as an issue in our annual Food Support Management Review. The steps listed here are part of our corrective action plan for that review as well as for this audit.

1. We receive an overdue IEVS report each month that is sorted by unit and distributed to the unit supervisor. Resolving matches from this report does not help us meet the 80% level in the first month that they are already over due, but resolving them the first month they appear as overdue prevents them from reoccurring the next month(s) and impacting our on-going compliance level.

In addition supervisors are able to use this report to identify staff not resolving matches timely and they can make a point of monitoring those staff. See number 3.

2. We recently used overtime and dedicated a staff person to resolving a number of overdue matches. Bao Vang, a manager, met with this staff person to identify some of the issues she discovered. As a result we are shifting some of our focus to preventing some of the matches we receive.

- Through a state matching system workers often receive “New Hire Messages” that notify us that someone has started a new job. By following up on those we can often get the necessary information to adjust the case, preventing a possible future IEVS match.
  - Clients often report that they are going to start a job, but do not always have the necessary information at that point for us to adjust the case. Some workers fail to follow through at a later date to obtain the needed information. We will do training in this area to address the steps the worker should take when a job is reported.
3. After consulting with the IEVS coordinator at DHS we will put more emphasis on monitoring the IEVS “due” reports so that we are more aware of what needs to be done and make sure that the necessary actions are taken. We find that some workers initiate resolution but do not do all the follow up steps timely and it becomes an overdue situation.

Our goal is to continue to improve our compliance level each quarter and to achieve the necessary 80% timely resolution level.

Bao Vang and Nancy Cincotta are the managers who are primarily responsible for the monitoring of IEVS compliance and implementing the necessary corrective actions to resolve this issue. If you have any questions you may contact Nancy Cincotta at (651) 266-4545.

Sincerely,

*/s/ Monty Martin*

Monty Martin  
Director of Human Services