



FINANCIAL AUDIT DIVISION REPORT

**Department of
Human Services**

Federal Compliance Audit

Fiscal Year 2010

May 6, 2011

Report 11-13

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

May 6, 2011

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Lucinda Jesson, Commissioner
Department of Human Services

This report presents the results of our audit of eight federal financial assistance programs administered by the Department of Human Services during fiscal year 2010. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Human Services.

We discussed the results of the audit with department staff at an exit conference on April 18, 2011. The audit was conducted by Laura Wilson, CPA, CISA (Auditor-in-Charge), assisted by auditors David Westlund, CPA (Lead Worker), Tyler Billig, Cynthia Gaertner, Melanie Greufe, CPA, Kevin Schoenrock, Blake Schwagel, Anna Solomka, Paul Thompson, Emily Wiant, and Shanda Wilhelmy.

This report is intended for the information and use 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 May 6, 2011.

We received the full cooperation of the department's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

We were unable to conclude on the Department of Human Services' compliance with certain federal requirements for the Medical Assistance, Child Care Cluster, and Temporary Assistance to Needy Families programs because the department lacked an adequate control structure to ensure it paid benefits only for eligible recipients. In addition, as reported in our November 4, 2010, report on the department's controls over healthcare provider payments, the department did not have adequate controls to ensure it only paid eligible providers through the Medical Assistance Program.¹ We consider these issues to be material weaknesses in the department's internal controls.

Except as noted above, the Department of Human Services generally 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 2010. However, the department had some weaknesses, as noted in findings 2 through 9 in the following *Findings and Recommendations* section (including four repeat findings from last year's audit that it did not fully resolve), and in our November 4, 2010, report on the department's controls over healthcare provider payments.²

Key Findings

- Prior Finding Not Resolved: The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate recipient eligibility determination for three major federal programs. ([Finding 1, page 7](#))
- Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements. ([Finding 2, page 9](#))

Audit Scope

Our scope included programs determined to be major federal programs for the State of Minnesota for fiscal year 2010, including Medicaid Cluster, Child Support Enforcement, Child Care Cluster, Social Services Block Grant, Foster Care, Temporary Assistance for Needy Families, Food and Nutrition Services Cluster, and State Fiscal Stabilization Funds.

¹ Office of the Legislative Auditor, Financial Audit Division, Report 10-34, *Department of Human Services: Healthcare Provider Payment Controls*, issued November 4, 2010, finding 1.

² *Ibid.*, findings 2 through 10.

Department of Human Services

Federal Program Overview

The Department of Human Services administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.³ Table 1 identifies these major federal programs at the Department of Human Services.

Table 1
Department of Human Services
Major Federal Programs
Fiscal Year 2010
(in thousands)

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Expenditures</u>	<u>Federal ARRA</u> ³ <u>Expenditures</u>	<u>Total</u>
	<u>Food and Nutrition Services Cluster</u> ²			
10.551	Supplemental Nutrition Assistance Program	\$ 586,653	\$ 0	\$ 586,653
10.561	Supplemental Nutrition Assistance Administration	60,769	1,401	62,170
84.397	State Stabilization Funds ARRA	0	110,010	110,010
	<u>Temporary Assistance for Needy Families Cluster</u>			
93.558	Temporary Assistance for Needy Families	227,760	0	227,760
93.714	Emergency Contingency Fund for Temporary Assistance for Needy Families State Programs ARRA	0	40,508	40,508
93.563	Child Support Enforcement	112,739	10,121	122,860
	<u>Child Care Cluster</u>			
93.575	Child Care and Development Block Grant	48,678	0	48,678
93.596	Child Care Mandatory and Matching Fund	48,895	0	48,895
93.713	Child Care and Development ARRA	0	26,077	26,077
93.658	Foster Care – Title IV-E	43,525	2,032	45,557
93.667	Social Services Block Grant	34,116	0	34,116
	<u>Medicaid Cluster</u>			
93.777	State Health Care Providers Survey	5,383	0	5,383
93.778	Medical Assistance Program	4,111,662	855,614	4,967,276

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs. Some federal programs are clustered if they have similar compliance requirements. Although the programs within a cluster are administered as separate programs, they are treated as a single program for the purpose of meeting the audit requirements of the U.S. Office of Management and Budget's Circular A-133.

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

³American Recovery and Reinvestment Act.

Source: Fiscal year 2010 Schedule of Expenditures of Federal Awards.

³ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2010 exceeded \$30 million.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Human Services complied with federal program requirements in its administration of these federal programs for fiscal year 2010. This audit is part of our broader federal single audit 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 federal programs.⁴ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

In November 2010, we issued a report on the results of our audit of the Department of Human Services' information technology controls over its healthcare provider payments.⁵ The scope of the audit included federal compliance requirements for the Medical Assistance Program and is part of our 2010 federal single audit.

We also followed up on findings and recommendations reported to the department's management in our fiscal year 2009 federal compliance audit.⁶

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 and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

Conclusion

We were unable to conclude on the Department of Human Services' compliance with certain federal requirements for the Medical Assistance, Child Care Cluster, and Temporary Assistance to Needy Families programs because the department lacked an adequate control structure to ensure it paid benefits only for eligible

⁴ The State of Minnesota's single audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 20, 2010, on the State of Minnesota's basic financial statements for the year ended June 30, 2010. In accordance with *Government Auditing Standards*, we also issued our report 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. (Office of the Legislative Auditor's Financial Audit Division Report 11-02, *Report on Internal Control Over Financial Reporting*, issued February 18, 2011.) This report included control deficiencies related to the Department of Human Services.

⁵ Office of the Legislative Auditor, Financial Audit Division, Report 10-34, *Department of Human Services: Healthcare Provider Payment Controls*, issued November 4, 2010.

⁶ Office of the Legislative Auditor's Financial Audit Division Report 10-11, *Department of Human Services*, issued March 18, 2010.

recipients.⁷ In addition, as reported in our November 4, 2010, report on the department's controls over healthcare provider payments, the department did not have adequate controls to ensure it only paid eligible providers through the Medical Assistance Program.⁸ We consider these issues to be material weaknesses in the department's internal controls.

Except as noted above, the Department of Human Services generally 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 2010. However, the department had some weaknesses, as noted in findings 2 through 9 in the following *Findings and Recommendations* section (including four repeat findings from last year's audit that it did not fully resolve), and in our November 4, 2010, report on the department's controls over healthcare provider payments.⁹

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*, prepared by the Department of Management and Budget. 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.

⁷ Finding 1 in the following *Findings and Recommendations* section further explains the department's material weakness in its internal controls over eligibility for these programs.

⁸ Office of the Legislative Auditor, Financial Audit Division, Report 10-34, *Department of Human Services: Healthcare Provider Payment Controls*, issued November 4, 2010, finding 1.

⁹ *Ibid.*, findings 2 through 10.

Findings and Recommendations

Finding 1

Prior Finding Not Resolved: The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate recipient eligibility determination for three major federal programs.

The department did not have a comprehensive approach to ensure it provided federal program benefits only to eligible recipients for three of its fiscal year 2010 major federal programs¹⁰ (Child Care Cluster, CFDA 93.575, 93.596, and 93.713; Medical Assistance, CFDA 93.778 and 93.778A; and Temporary Assistance for Needy Families, CFDA 93.558 and 93.714).¹¹ Although the department had a variety of internal controls, it did not assess how well these controls provided comprehensive, consistent, and timely assurance that the department had met its recipient eligibility oversight responsibilities.

Because the department lacked a comprehensive approach to its eligibility oversight responsibilities, we could not design an audit approach that would provide us with sufficient evidence to conclude on the department's compliance with certain federal requirements (Activities Allowed or Unallowed, Allowable Costs/Cost Principles, and Eligibility) for the Medical Assistance, Child Care Cluster, and Temporary Assistance to Needy Families programs. As a result, we were unable to express an opinion for these requirements in the state's fiscal year 2010 *Financial and Compliance Report on Federally Assisted Programs*.¹²

The department had a variety of ways that it monitored eligibility determinations made by county staff;¹³ however, in fiscal year 2010, several of these monitoring tools did not provide sufficient assurance, and the department did not take additional steps to ensure that county staff appropriately determined eligibility.

The department's oversight of eligibility determinations was deficient in the following programs:

¹⁰ In fiscal year 2010, the Children's Health Insurance Program, (CFDA 93.767, federal award number 0905MN502) was not a major federal program; however, in fiscal year 2009, when it was a major federal program, we found that the department did not have sufficient internal controls over eligibility compliance requirements. We reported this finding in the Office of the Legislative Auditor's Financial Audit Division Report 10-11, *Department of Human Services*, issued March 18, 2010, finding 2. In our fiscal year 2010 audit, as part of our required follow-up of prior audit findings, we concluded that the department had not resolved the finding.

¹¹ See Appendix A for the federal award numbers for these programs.

¹² Statement on Auditing Standards Number 58 allows an auditor to decline to express (disclaim) an opinion whenever he or she is unable to form or has not formed an opinion.

¹³ County staff worked with clients to determine and validate whether the client met certain eligibility requirements, such as citizenship, immigration status, residency, and income. The county staff entered validated information into the state's computer system. The state paid for benefits provided to the clients.

- **Medical Assistance:** The department did not design additional reviews to compensate for the limited scope of its fiscal year 2010 Medicaid Eligibility Quality Control testing. The fiscal year 2010 testing focused on about 0.5 percent of the Medical Assistance recipients; these recipients were enrolled in long-term care and elderly waiver services. The federal government allows states to substitute traditional Medicaid Eligibility Quality Control testing with a pilot project such as this. However, the department has an overall, fundamental responsibility to ensure the eligibility of program recipients.
- **Child Care Cluster:** The department did not have adequate internal controls to validate the eligibility determinations made by counties.¹⁴ During fiscal year 2010, the department reviewed county eligibility determinations during the period from July 2009 through September 2009, but it did not perform any additional reviews through the rest of the fiscal year. In addition, the department did not monitor the results of counties' case reviews (performed by nearly 60 percent of the counties) to identify error rates or trends.
- **Temporary Assistance for Needy Families:** The eligibility oversight functions performed by the department's Program Assessment and Integrity Division eligibility did not include a sufficient number of case reviews to ensure recipients had met federal eligibility requirements.¹⁵

In addition, the department did not sufficiently test whether county staff accurately handled certain sanctions in the department's eligibility system. Federal regulations require that clients who refused a work plan or did not cooperate with child support orders should be sanctioned, while clients who are single parents and unable to work because they did not have a viable childcare option should not be sanctioned.¹⁶ The department did not place sanctions on 7 of the 25 recipients we tested who had not cooperated with their child support orders.

The department also did not supplement its eligibility controls when it learned that most of the calendar year 2009 single audits of counties did not include testing of eligibility determinations.¹⁷ As a result, the department could not rely on those audits as part of its internal controls for these programs. Medical Assistance recipients in the counties where single audits did not include testing of eligibility determinations received at least 83 percent of the program's benefits.

¹⁴ Anoka, Ramsey, Hennepin, Isanti, and Olmsted counties contract with nonprofit entities for some or all of their county eligibility determinations.

¹⁵ Office of Management and Budget A-133 Compliance Supplement, Temporary Assistance to Needy Families, part 4, letter E.

¹⁶ 45 CFR parts 261.14 and 261.56.

¹⁷ The state's fiscal year 2010 single audit incorporates the calendar year 2009 county level single audits.

Recommendations

- *The Department of Human Services should develop a comprehensive, coordinated approach to ensure and monitor compliance with federal eligibility requirements.*
- *The department should develop internal controls to monitor the specific eligibility requirements related to sanctions for the Temporary Assistance for Needy Families Program.*

Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

Finding 2

Beyond the department's deficiencies in its internal controls to ensure compliance with federal eligibility requirements, as discussed in finding 1, the department did not have a comprehensive risk assessment regarding internal controls over compliance with other federal single audit requirements.¹⁸ The federal Office of Management and Budget, Circular A-133 outlines the state's responsibilities for managing federal assistance programs and addresses general compliance requirements and program specific requirements. The department developed a risk assessment related to many of its financial operations and had many control activities and monitoring functions. However, it did not fully identify and analyze risks related to federal program compliance, design comprehensive controls to address significant risks, or develop sufficient monitoring procedures to ensure that controls were in place and were effective to reduce the significant risks identified. A comprehensive internal control structure is critical to ensure compliance with federal requirements. The department had an increased likelihood of noncompliance when it did not clearly communicate to all staff its risks, control activities, and monitoring policies and procedures.

State policy stipulates that agency management is responsible to identify, analyze, and manage business risks that affect its ability to maintain its financial strength and the overall quality of its products and government services.¹⁹ This policy also requires communication of the internal control policies and procedures to all staff so they understand expectations and the scope of their freedom to act. The policy further requires follow-up procedures that, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals

¹⁸ This finding affects all major federal programs identified in Table 1. See Appendix A for the federal award numbers for these programs. It also applies to federal programs that were major programs in fiscal year 2009, but not in fiscal year 2010, including Adoption Assistance (CFDA 93.650), Substance Abuse (CFDA 93.959), and Children's Health Insurance Program (CFDA 93.767).

¹⁹ Department of Management and Budget Policy 0102-01, *Internal Control*.

responsible for the process or activity involved, including the agency's executive management and other individuals in a position to take corrective action. The federal government expects that those controls also ensure compliance with federal laws, regulations, and program compliance requirements.²⁰

The findings in this report identify deficiencies in the department's internal control procedures and specific noncompliance with federal requirements that the department's internal control structure did not prevent or detect. If the department had a comprehensive internal control structure, it may have identified these deficiencies, assessed the degree of risk for these deficiencies, designed control procedures to address significant risk, and monitored whether controls were working as designed and effective in reducing the risks to an acceptably low level. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The department should continue to review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes related to major federal programs.*

Finding 3

The Department of Human Services granted employees excessive access to the child support enforcement payment system.

The department granted eleven help desk employees excessive access to the child support enforcement payment system²¹ (CFDA 93.563).²² The department used the system to locate noncustodial parents, implement automatic child support withholding with employers, enforce child support orders, and centralize the receipt and disbursement of child support payments, as required by federal law. These 11 help desk employees were responsible for handling complaints from custodial and noncustodial parents who were enrolled in the child support enforcement program. The employees were granted access to modify information in the child support payment system, which was not required to perform their job duties.

Access control standards state that organizations should use the concept of "least privilege," allowing only authorized access for users that is necessary to accomplish assigned tasks in accordance with organizational missions and

²⁰ U.S. Office of Management and Budget Circular A-133, Part 6.

²¹ The state's child support system is PRISM – Providing Resources to Improve Support in Minnesota system.

²² See Appendix A for the federal award numbers for these programs.

business functions.²³ By granting employees unnecessary access, the department increased the risk that errors may occur.

Recommendation

- *The department should eliminate excessive employee access to the child support payment system.*

The Department of Human Services advanced federal funds to certain subrecipients and to the state Supreme Court without ensuring they disbursed those funds in the same manner as outlined in the federal cash management agreement.

Finding 4

The department did not comply with its U.S. Treasury-State Agreement when it advanced federal funds to subrecipients for the Child Care and Development Block Grant programs (CFDA 93.575 and 93.713).²⁴ The U.S. Treasury-State Agreement required the state to disburse the Child Care Cluster funds within one day after receiving the federal funds, and the federal Office of Management and Budget required subrecipients to conform substantially to the same cash management standards as the state. However, the grant agreements between the department and the subrecipients required the department to make initial advance payments to the grantees equal to one calendar quarter of the grant amounts followed by quarterly reimbursements of actual expenditures. The grant agreements required the reconciliation of funds at the end of the state fiscal year. We estimate that for the first quarter of fiscal year 2010, the department's advances exceeded subrecipients' costs by about 54 percent, or \$1.3 million.

In addition, the department did not comply with its U.S. Treasury-State Agreement when it advanced federal funds to the Minnesota Supreme Court for expediting child support enforcement cases²⁵ (Child Support Enforcement – CFDA 93.563).²⁶ The U.S. Treasury-State Agreement allows the state to draw federal funds no more than one day in advance of disbursing child support enforcement program costs. However, the department drew federal funds to provide advances to the Supreme Court, resulting in a positive cash balance in the state treasury until the Supreme Court incurred sufficient expenditures to cover the advance. During fiscal year 2010, we determined that six of the department's payments to the Supreme Court exceeded our estimate of the costs incurred and

²³ National Institute of Standards and Technology publication 800-53, AC-6.

²⁴ See Appendix A for crosswalk from Catalogue of Federal Domestic Award (CFDA) number to specific federal award grant number.

²⁵ The department's interagency agreement with the Minnesota Supreme Court was not executed until September 22, 2009; however, the department advanced funds to the court system for the first three months of the fiscal year before the agreement was executed, in violation of *Minnesota Statutes 2010*, 16C.08 Professional or Technical Services.

²⁶ See Appendix A for the federal award numbers for these programs.

resulted in excess cash in the state treasury ranging from about \$18,800 to \$192,000.

Recommendation

- *The department should comply with its U.S. Treasury-State Agreement and ensure subrecipients conform to the same cash management standards.*

Finding 5

Prior Finding Partially Resolved: The Department of Human Services did not sufficiently review a key payroll report.

The department did not sufficiently review the payroll register to ensure the accuracy of wages and verify that staff posted payroll expenditures to the correct accounts on the state's accounting system.²⁷ The payroll register report shows the current pay period's earnings codes, hours, pay rates, adjustments, lump-sum payments, and expense reimbursements.

State policy requires agencies to review the payroll register to identify any errors in the hours or rates that the department may need to correct.²⁸ During fiscal year 2010, the payroll staff's review of the report did not include verification of adjustments, special pay rates, overtime, and benefit allocations. By not performing the level of review required by policy, the department may incorrectly charge payroll costs to federal programs.

Recommendation

- *The department should review the payroll register report each pay period to verify the accuracy of payroll transactions.*

Finding 6

The Department of Human Services did not communicate all federal award information to subrecipients for seven major federal programs.

The department did not identify to subrecipients at the time of grant award the federal award name and number for the following programs: Medical Assistance (CFDA 93.777 and 93.778), Child Care Cluster (CFDA 93.575, 93.596, and 93.713), Child Support Enforcement (CFDA 93.563), Social Services Block Grants (CFDA 93.667), Foster Care (CFDA 93.658), Temporary Assistance for

²⁷ This finding affects all major federal programs identified in Table 1. See Appendix A for the federal award numbers for these programs. It also applies to federal programs that were major programs in fiscal year 2009, but not in fiscal year 2010, including Adoption Assistance (CFDA 93.650), Substance Abuse (CFDA 93.959), and Children's Health Insurance Program (CFDA 93.767).

²⁸ Department of Management and Budget's policy PAY0028 *Agency Verification of Payroll and Human Resources Transactions*.

Needy Families (CFDA 93.558), and Supplemental Nutrition Assistance Program (CFDA 10.551 and 10.561).²⁹ Federal regulations require the department to provide this information to all subrecipients.³⁰

Recommendation

- *The department should identify to the subrecipient, at the time of the award, the federal award name and number.*

The Department of Human Services did not ensure that out-of-state medical facilities complied with the required health and safety standards.

Finding 7

The department did not ensure that out-of-state providers of Medical Assistance (CFDA 93.778) services complied with federal regulatory health and safety standards. The department did not verify that the providers had the required federal health and safety survey. The survey, typically conducted by the state's health department, ensures that providers and suppliers of Medical Assistance health care services complied with federal regulatory health and safety standards and conditions of participation. The department could not provide evidence that the three out-of-state nursing facilities and one nonaccredited out-of-state hospital we tested had the required surveys. Department staff told us that their process would have verified that the facilities were licensed in their home state when they initially enrolled the providers, but they did not obtain proof of health and safety surveys. The department failed to determine if the facilities continued to be in compliance after initial enrollment.

Federal regulations require facilities receiving Medicaid funds through the Medical Assistance Program (CFDA 93.778)³¹ to have surveys completed. Nursing facilities and intermediate care facilities for the mentally retarded should be surveyed within 12 months or have an approved extension.³² The federal Centers for Medicare and Medicaid Services determined how often individual hospitals needed surveys and generally required hospitals to be surveyed about every three years.

Recommendation

- *The department should ensure that out-of-state providers receiving Medicaid payments meet the required health and safety standards.*

²⁹ See Appendix A for the federal award numbers for these programs.

³⁰ 2 CFR part 176.210(c) and Office of Management and Budget A-133 Circular § .400(d).

³¹ See Appendix A for the federal award numbers for these programs.

³² 42 CFR 442.12 (a)(b) and 42 CFR 442.109.

Finding 8

Prior Finding Partially Resolved: The Department of Human Services submitted reports to the federal government late for four federal programs.

The department did not maintain sufficient internal controls to ensure the timeliness of reports for four of its fiscal year 2010 major federal programs³³ (Foster Care, CFDA 93.658 and 93.658A; Medical Assistance, CFDA 93.778 and 93.778A; Child Support Enforcement, CFDA 93.563 and 93.563A; and Temporary Assistance for Needy Families, CFDA 93.558 and 93.714).³⁴ The department did not always meet the 30 or 45-day reporting requirement for filing quarterly reports to the federal government. During fiscal year 2010, the department electronically filed the reports from 2 to 56 days after the due date or extended due date. The federal government relies on the reports to ensure compliance with program objectives and ensure that the state is appropriately managing and monitoring the federal award.

Recommendation

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

Finding 9

The Department of Human Services did not consistently retain a percentage of contractor payments, as required in its professional technical contracts.

The department did not withhold an appropriate amount of retainage for two of nine contracted services we tested.³⁵ The department should have retained about \$30,000 more than it did for contracts totaling approximately \$520,000. State statute indicated that no more than 90 percent of the amount due under a contract could be paid until the commissioner certified the service or work was satisfactorily completed.³⁶

Recommendation

- *The department should withhold appropriate retainage to ensure contracted services are satisfactorily completed.*

³³ In fiscal year 2010, the Children's Health Insurance Program (CFDA 93.767, federal award number 0905MN502) was not a major federal program; however, in fiscal year 2009, when it was a major federal program, we found that the department had not submitted reports to the federal government by the required date. We reported this finding in the Office of the Legislative Auditor's Financial Audit Division Report 10-11, *Department of Human Services*, issued March 18, 2010, finding 8. In our fiscal year 2010 audit, as part of our required follow-up of prior audit findings, we concluded that the department had not resolved the finding.

³⁴ See Appendix A for the federal award numbers for these programs.

³⁵ The payments to these two contractors related to nonmajor federal programs.

³⁶ *Minnesota Statutes* 2010, 16C.08.

Appendix A
Major Federal Programs
Department of Human Services
Fiscal Year 2010

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Award Number</u>
	<u>Food and Nutrition Services Cluster</u> ²	
10.551	Supplemental Nutrition Assistance Program Benefits	2009IS601842, 2009IS604542, 2010IS601842, 2010IS604542
10.551 A	Supplemental Nutrition Assistance Program Benefits – ARRA ³	2009ID282142, 2009ID281142, 2010ID282142, 2010ID281142
10.561	Supplemental Nutrition Assistance Program Administrative Funds	2009IS251442, 2009IS251942, 2009IS252042, 2009IS803642, 2009IQ650342, 2010IS252042, 2010IS251442, 2009CQ260342, 2010IS803642, 20108E251842, 2010IE251842, 2010IQ270342, 2009CQ252042, 2010IS251942
10.561 A	Supplemental Nutrition Assistance Program Administrative Funds	2010ID250342
84.397	State Fiscal Stabilization Funds	S397A090024
	<u>Temporary Assistance for Needy Families Cluster</u>	
93.558	Temporary Assistance for Needy Families	0902MNTANF, 1002MNTANF, 0602MNTANF, 0802MNTANF
93.714	Temporary Assistance for Needy Families State Programs – ARRA	0901MNTAN2, 1001MNTAN2
93.563	Child Support Enforcement	0704MNHMHR, 0904MN4004, 1004MN4004
93.563 A	Child Support Enforcement – ARRA	0904MN4002, 1004MN4002
	<u>Child Care Cluster</u>	
93.575	Child Care and Development Block Grant	0902MNCCDF, 1001MNCCDF
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	Same as above
93.713	Child Care and Development Block Grant – ARRA	0901MNCCD7
93.658	Foster Care – Title IV-E	0901MN1401, 1001MN1401
93.658 A	Foster Care – Title IV-E – ARRA	0901MN1402, 1001MN1402
93.667	Social Services Block Grant	0901MNSOSR, 1001MNSOSR, 0601MNSOS2
	<u>Medicaid Cluster</u>	
93.777	State Survey and Certification of Health Care Providers and Suppliers	0705MN5001, 0905MN5001, 1005MN5001
93.778	Medical Assistance Program	0705MN5028, 0805MN5028, 0805MN5048, 0905MN5028, 0905MN5048, 1005MN5ADM, 1005MN5MAP
93.778 A	Medical Assistance Program – ARRA	0905MNARRA, 1005MNARRA, 1005MNQUAL

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

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

³The American Recovery and Reinvestment Act (ARRA) funds were segregated to fulfill transparency guidelines.

Source: Department of Human Services' staff.



Minnesota Department of **Human Services**

April 26, 2011

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, 2010. 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 Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

Lucinda E. Jesson
Commissioner

Enclosure

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2010**

Audit Finding #1

Prior Finding Not Resolved: The Department of Human Services did not adequately address its responsibility to monitor and ensure accurate recipient eligibility determination for three major federal programs.

Audit Recommendation #1-1

The Department of Human Services should develop a comprehensive, coordinated approach to ensure and monitor compliance with federal eligibility requirements.

Department Response #1-1

The Department agrees with this finding and recommendation. We will expand our current eligibility review process to create a comprehensive, coordinated approach to ensure recipients meet applicable federal eligibility requirements. Additionally, we will monitor the results of county eligibility reviews to identify error rates and trends, and incorporate that information with our ongoing efforts to improve the eligibility process.

Person Responsible: Gary L. Johnson, Director of Internal Audits
Estimated Completion Date: 10/1/11

Audit Recommendation #1-2

The department should develop internal controls to monitor the specific eligibility requirements related to sanctions for the Temporary Assistance for Needy Families program.

Department Response #1-2

The department agrees with this finding. The Program Assessment and Integrity Division currently provides a number of federally-required oversight functions for multiple programs. A workgroup will be formed to review the existing work and to develop a more comprehensive plan to insure adequate oversight of TANF cases. This methodology will include eligibility reviews as well as oversight of sanction use by county staff.

Person Responsible: Erin Sullivan-Sutton, Assistant Commissioner for Children and Family Services
Estimated Completion Date: 12/31/11

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2010**

Audit Finding #2

Prior Finding Partially Resolved: The Department of Human Services did not fully identify, analyze, and document its internal controls related to compliance with federal single audit requirements.

Audit Recommendation #2

The department should continue to review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes related to major federal programs.

Department Response #2

The Department agrees with this finding and recommendation. We will expand our risk assessment efforts to include our involvement with major federal programs covered under the federal single audit act.

Person Responsible: Gary L. Johnson, Director of Internal Audits
Estimated Completion Date: 12/31/11

Audit Finding #3

The Department of Human Services granted employees excessive access to the Child Support Enforcement payment system.

Audit Recommendation #3

The department should eliminate unnecessary employee access to the child support payment system.

Department Response #3

The Department agrees with this finding and recommendation. Effective March 25, 2011, the multiple security profiles provided to three PRISM help desk staff were removed. This change eliminated staff capability to view or modify PRISM data outside the scope of their responsibilities as help desk staff. The existing help desk security profile was modified for all help desk staff in order to provide the appropriate access, and only that access, necessary to perform their duties at the help desk.

Person Responsible: Erin Sullivan-Sutton, Assistant Commissioner for Children and Family Services

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2010**

Estimated Completion Date: Completed

Audit Finding #4

The Department of Human Services advanced federal funds to certain subrecipients and to the state Supreme Court without ensuring they disbursed those funds in the same manner as outlined in the federal cash management agreement.

Audit Recommendation #4

The department should comply with its U.S. Treasury-State Agreement and ensure subrecipients conform to the same cash management standards.

Department Response #4

The department agrees with the recommendation and will ensure compliance with the U.S. Treasury-State Agreement.

Person Responsible: Marty Cammack, Director of Financial Management
Operations
Estimated Completion Date: 6/30/11

Audit Finding #5

Prior Finding Partially Resolved: The Department of Human Services did not sufficiently review a key payroll report.

Audit Recommendation #5

The department should review the payroll register report each pay period to verify the accuracy of payroll transactions.

Department Response #5

The department agrees with this finding. DHS is currently reviewing and documenting payroll duties. As part of this documentation, DHS will review the process currently being followed when reviewing the payroll register and determine additional steps to be added to the review.

Person Responsible: Marty Cammack, Director of Financial Management
Operations
Estimated Completion Date: 6/30/11

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2010**

Audit Finding #6

The Department of Human Services did not communicate all federal award information to subrecipients for seven major federal programs.

Audit Recommendation #6

The department should identify to the subrecipient, at the time of the award, the federal award name and number.

Department Response #6

The department agrees that subrecipients need to receive adequate information on the federal award. We will review our business processes to determine how best to provide that information.

Person Responsible: Marty Cammack, Director of Financial Management
Operations
Estimated Completion Date: 6/30/11

Audit Finding #7

The Department of Human Services did not ensure that out-of-state medical facilities complied with the required health and safety standards.

Audit Recommendation #7

The department should ensure that out-of-state providers receiving Medicaid payments meet the required health and safety standards.

Department Response #7

The Department agrees with this finding and recommendation. We will develop a process to ensure Medicaid payments are made only to eligible out-of-state providers.

Person Responsible: Adriann Alexander, Director of Health Care Operations
Estimated Completion Date: Completed 8/1/10

Audit Finding #8

Prior Finding Partially Resolved: The Department of Human Services submitted reports to the federal government late for five federal programs.

**Department of Human Services
Response to the Legislative Audit Report
For the Year Ended June 30, 2010**

Audit Recommendation #8

The department should improve its reporting process to ensure timely submission of all of its federal reports.

Department Response #8

The department agrees to continue to strive for timely submission of all of its federal reports.

Person Responsible: Marty Cammack, Director of Financial Management
Operations

Estimated Completion Date: 6/30/11

Audit Finding #9

The Department of Human Services did not consistently retain a percentage of contractor payments as required in its professional technical contracts.

Audit Recommendation #9

The department should withhold appropriate retainage to ensure contracted services are satisfactorily completed.

Department Response #9

The department agrees with this recommendation. Changes will be made to contract boiler plate language to state the DHS will withhold 10% of each invoice as contract retainage. This issue will also be addressed in upcoming contract training.

Person Responsible: Jay Brunner, Manager Legal Compliance and Contract
Management

Estimated Completion Date: 6/30/11