



Department of Human Services

Federal Compliance Audit

Year Ended June 30, 2016

March 24, 2017
REPORT 17-11

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Office of the Legislative Auditor Financial Audit Division

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 24, 2017

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Department of Human Services

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Human Services during fiscal year 2016. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this was not a comprehensive audit of the Department of Human Services.

We discussed the results of the audit with the department's staff on March 16, 2017. This audit was conducted by Sonya Johnson, CPA, CFE (Audit Manager); Laura Wilson, CPA, CISA (Auditor-in-Charge); Zach Yzermans, CPA (Auditor-in-Charge); assisted by auditors Tyler Billig, CPA; Michelle Bilyeu; Jordan Bjonfald, CPA; Kayla Borneman, CPA, CFE; Michael Fenton, CISA; Kevin Herrick, CISA; Jennyfer Hildre; Gabrielle Johnson, CPA; Joe Kuschke, CPA; Erick Olsen; Paul Rehschuh; Heather Rodriguez; Kris Schutta; Ali Shire, CPA; Tammy Strong; Melissa Strunc, CPA; and Emily Wiant.

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

We audited the Department of Human Services' use of money it received in fiscal year 2016 through eleven large federal grant programs (including Medical Assistance, Supplemental Nutrition Assistance, and Temporary Aid for Needy Families).

We designed the audit to determine whether the department's use of the federal grant money and its administration of the programs complied with federal regulations. We also designed the audit to determine whether the department's controls were adequate to ensure it complied with federal requirements.

For each federal program, we interviewed officials and staff of the Department of Human Services to understand how the department administered the federal programs and ensured compliance. We analyzed the financial transactions of each program, and, as necessary, tested a sample of those transactions to determine whether the department's internal controls were effective and to ensure the transactions complied with federal requirements.

Conclusion

We concluded that the Department of Human Services generally complied with most federal grant requirements for its large federal programs for fiscal year 2016. The department also generally had adequate internal controls to ensure compliance with those legal requirements.

However, as noted in Finding 1, we concluded that the department did not comply with federal and state eligibility requirements for the Temporary Assistance for Needy Families program which provides cash assistance to low-income families.

In addition, the department had other instances of noncompliance and internal control weaknesses, including four findings repeated from our prior report,¹ as noted in the findings in this report.

Audit Findings

- The Department of Human Services did not adequately ensure eligibility requirements were met for families receiving Temporary Assistance for Needy Families benefits and the elderly and disabled people receiving Medical Assistance benefits. This is a repeat finding for the Temporary Assistance for Needy Families program. (Finding 1, page 9)

¹ Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, issued March 24, 2016. See Appendix B for the status of the findings in this report.

- The Department of Human Services did not ensure county workers with access to the department's computer systems needed the access. This is a repeat finding. (Finding 2, page 12)
 - The Department of Human Services did not consistently reduce enrollees' cash assistance benefits when the enrollees refused to cooperate with child support enforcement requirements. This is a repeat finding. (Finding 3, page 13)
 - The Department of Human Services did not always perform on-site licensing reviews of child care centers within the required timeframe. This is a repeat finding. (Finding 4, page 14)
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Department of Human Services

Federal Program Overview

The Department of Human Services administered federal programs that we included as part of our annual audit of the State of Minnesota's compliance with federal requirements under the federal Single Audit Act.² The objective of the Single Audit is to provide the federal government with assurance about the state's management and use of federal grant money. The audit encompasses both financial and compliance components.

Each year, the federal Office of Management and Budget issues a *Compliance Supplement* to provide specific audit requirements for its largest federal programs, including the ones we audited at the Department of Human Services. The *Compliance Supplement* identifies important compliance requirements that the federal government expects to be considered as part of our audit. The supplement provides detailed explanations, discussions, and guidance about standard compliance requirements that recipients must comply with when receiving and using such federal grant money.

The federal government describes the major federal programs as follows:³

- Supplemental Nutrition Assistance Program Cluster⁴ assists low income households in buying food needed for good health.
- Temporary Assistance for Needy Families provides time-limited assistance to low-income families with children.
- Child Care and Development Fund Cluster provides funds to child care providers on behalf of low-income individuals and families to increase the availability and affordability of child care services.
- Basic Health Program is an optional program established as part of the Affordable Care Act to provide a health care coverage program for certain low-income residents who do not qualify for Medicaid but are otherwise eligible to purchase coverage through the Health Insurance Marketplace. The department began participating in the Basic Health Program on January 1, 2015.

² 2 *CFR* Part 200 – Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, subpart F – Audit Requirements.

³ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the U.S. Government in 2 *CFR*, sec. 200.518 as a program or cluster of programs whose expenditures for fiscal year 2016 exceeded \$30 million.

⁴ 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 *Compliance Supplement* 2016.

- Foster Care provides 24-hour, substitute care for children needing temporary placement and care outside of their homes. Minnesota counties administer this program, and the department reimburses the counties for their administrative costs.
- Children's Health Insurance Program provides payments to medical providers on behalf of certain low-income children and pregnant women.
- Medicaid Cluster provides payments to medical providers on behalf of low-income persons.

Table 1 shows the department's federal expenditures for these programs in fiscal year 2016:

CFDA^a	Program Name	Federal Expenditures
	<u>Supplemental Nutrition Assistance Program Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	\$ 606,581
10.561	State Administrative Matching Grants	69,574
	<u>Temporary Assistance for Needy Families Cluster</u>	
93.558	Temporary Assistance for Needy Families	194,555
	<u>Child Care and Development Fund Cluster</u>	
93.575	Child Care and Development Block Grant	68,960
93.596	Child Care Mandatory and Matching Funds	63,655
93.640	<u>Basic Health Program</u>	376,673
93.658	<u>Foster Care – Title IV-E</u>	58,371
93.767	<u>Children's Health Insurance Program</u>	91,398
	<u>Medicaid Cluster</u>	
93.775	State Medicaid Fraud Control Units ^b	1,685
93.777	State Survey and Certification of Health Care Providers and Suppliers ^c	14,624
93.778	Medical Assistance Program	6,699,211

^a The 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 *Compliance Supplement 2016*.

^b The Office of Attorney General administers the State Medicaid Fraud Control Units.

^c Both the departments of Human Services and Health spent State Survey and Certification of Health Care Providers and Suppliers funds: \$6,493,000 and \$8,131,000, respectively.

Source: Fiscal Year 2016 Schedule of Expenditures of Federal Awards.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Department of Human Services complied with the types of compliance requirements described in the federal Office of Management and Budget's *Compliance Supplement* for fiscal year 2016.⁵ This audit is part of our broader federal Single Audit designed 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.⁶

For each federal compliance requirement, we interviewed officials and staff of the Department of Human Services to understand how the department administered the federal programs and ensured compliance. We analyzed the financial transactions of each program, and, as necessary, tested a sample of those transactions to determine whether the department's internal controls were effective and to ensure the transactions complied with federal requirements. See Appendix A on page 17 for more detail on our testing methodology.

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; Title 2, Code of Federal Regulations, Part 200, Subpart F *Audit Requirements*; and the U.S. Office of Management and Budget's *Compliance Supplement* for 2016.⁷

⁵ 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* (Uniform Guidance), and the related *Compliance Supplement* 2016, issued by the Office of Management and Budget, describe general compliance requirements applicable to most federal grant programs. Those requirements include: activities allowed or unallowed; allowable costs and indirect cost allocation principles; management of federal cash; program eligibility; equipment and real property management; matching, level of effort, and earmarking; period of performance of federal funds; procurement and suspension and debarment; program income; reporting; subrecipient monitoring; and special tests.

⁶ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 16, 2016, on the State of Minnesota's basic financial statements for the year ended June 30, 2016. 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, Financial Audit Division Report 17-05, *Report on Internal Controls Over Financial Reporting*, issued February 16, 2017.)

⁷ The 2016 Compliance Supplement contained two parts with separate legal requirements and suggested audit procedures depending on the date the federal government awarded funds. Awards issued prior to December 26, 2014, were subject to the requirements of the federal Office of Management and Budget Circulars, including A-133 *Audits of States, Local Governments and Non-Profit Organizations* and A-87 *Cost Principles for State, Local, and Indian Tribal Governments*. Awards issued after December 26, 2014, were subject to the requirements of the Uniform Guidance outlined in 2 CFR, Part 200.

Limitation of Public Health Program Eligibility Testing

For fiscal year 2016, we did not test whether certain people enrolled in Medical Assistance, Children's Health Insurance Program, and the Basic Health Program met federal and state eligibility requirements. We did not test the eligibility of people whose eligibility was based on their *modified adjusted gross income*.⁸ We did not test eligibility requirements for these people because the federal audit requirements for the Medical Assistance and Children's Health Insurance programs specifically directed us to not test them. The 2016 *Compliance Supplement* stated:⁹

The auditor should not test eligibility for determinations based on Modified Adjusted Gross Income (MAGI-based determination). Detailed testing is performed under the Medicaid [Medical Assistance] and CHIP [Children's Health Insurance Program] Eligibility Review Pilots, which serve as CMS' [Center for Medicare and Medicaid Services] oversight of Medicaid and CHIP eligibility determinations during the initial years of Affordable Care Act implementation.

While that provision is specific to Medical Assistance and the Children's Health Insurance Program, we applied it also to the Basic Health Program which provides federal funds to help pay the benefits for people enrolled in MinnesotaCare. We did this because the MinnesotaCare program also bases eligibility on enrollees' *modified adjusted gross income* and the Center for Medicare and Medicaid Services also oversees the department's eligibility determinations.¹⁰

Because we did not test eligibility for these programs as part of our 2016 federal compliance testing, we do not conclude on the department's compliance with these requirements. However, the department acknowledged that it had not fully resolved most of the findings of our earlier audit of the eligibility determinations in the Minnesota eligibility system.¹¹ That audit issued in 2016 reported high

⁸ For most people, *modified adjusted gross income* is equal to their adjusted gross income determined on their federal tax return, plus some nontaxable amounts (such as nontaxable Social Security benefits), and minus some items such as scholarships and awards. Generally, these people are parents, children, adults without children, and pregnant women and not the elderly, disabled and foster and adopted children.

⁹ Office of Management and Budget *Circular A-133 Compliance Supplement 2016*, Part 4 – Department of Health and Human Services, pages 4-93.767-3 and 4-93.778-15.

¹⁰ For additional information on the U.S. Department of Health and Human Services' Centers for Medicare and Medicaid's quality control program, see <https://www.medicare.gov/federal-policy-guidance/downloads/sho15004.pdf>.

¹¹ The Minnesota eligibility system is the Minnesota Eligibility Technology System (METS) and is also commonly referred to as MNsure. MNsure is the name of the online health insurance exchange the state developed under the Affordable Care Act and includes both the public health care programs and private health insurance.

error rates in eligibility determinations for the Medical Assistance and MinnesotaCare programs based on our testing of enrollees subject to the *modified adjusted gross income* requirements.¹² The audit also reported numerous weaknesses in the department's oversight of the design and implementation of the new Minnesota eligibility system. In addition, the department's internal auditors reported an overall error rate of 16.7 percent in its review of *modified adjusted gross income*-based eligibility determinations made during the period from October 2015 through January 2016.¹³

Conclusion

We concluded that the Department of Human Services generally complied with most federal grant requirements for its large federal programs for fiscal year 2016. The department also generally had adequate internal controls to ensure compliance with those legal requirements.

However, as noted in Finding 1, we concluded that the department did not comply with federal and state eligibility requirements for the Temporary Assistance for Needy Families program which provides cash assistance to low-income families.

In addition, the department had other instances of noncompliance and internal control weaknesses, including four findings repeated from our prior federal compliance report,¹⁴ as noted in the findings in this report.

The **Findings and Recommendations** section provides more information about the department's noncompliance and internal control weaknesses.

Status of Prior Findings

Appendix B summarizes the status of each of the five findings we reported in our 2015 federal compliance report.¹⁵ As shown in the appendix, the department resolved one finding and partially resolved another, but did not resolve the other three findings.

¹² Office of the Legislative Auditor, Financial Audit Division Report 16-02, *Department of Human Services Oversight of MNsure Eligibility Determinations for Public Health Care Programs*, issued January 28, 2016.

¹³ Department of Human Services, Internal Audits Office, *Program Compliance & Audits, Targeted Renewal Audit Report*, issued February 2, 2017.

¹⁴ Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, issued March 24, 2016. See Appendix B for the status of the findings in this report.

¹⁵ Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, issued March 24, 2016.

Additional Reporting

We will report the findings in both this report and the 2016 report on the department's oversight of public health care program eligibility determinations¹⁶ in the 2016 Single Audit report to the federal government. That report, called the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, is prepared by the Department of Management and Budget. The 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 internal control weaknesses and noncompliance.

¹⁶ Office of the Legislative Auditor, Financial Audit Division Report 16-02, *Department of Human Services Oversight of MNsure Eligibility Determinations for Public Health Care Programs*, issued January 28, 2016.

Findings and Recommendations

The Department of Human Services did not adequately ensure eligibility requirements were met for families receiving Temporary Assistance for Needy Families benefits and the elderly and disabled people receiving Medical Assistance benefits. This is a repeat finding for the Temporary Assistance for Needy Families program.¹⁷

Finding 1

In fiscal year 2016, the department paid cash assistance benefits to families not eligible for the Temporary Assistance for Needy Families program. In addition, the department paid benefits for some elderly and disabled people not eligible for the Medical Assistance program. The department generally works in coordination with the counties to determine eligibility for these programs.

The department had the following weaknesses in its eligibility oversight processes:

High error rates in eligibility determinations – In fiscal year 2016, county workers continued to make errors when enrolling families in the Temporary Assistance for Needy Families (CFDA 93.558)¹⁸ program. State statutes provide the basis for Temporary Assistance for Needy Families eligibility requirements.¹⁹ Based on the department’s review of eligibility determinations and our testing of a sample of families, we found 8 of 24 families were not eligible for benefits.

As part of the department’s oversight of the counties eligibility determinations, the department selects a sample of families to verify whether the county workers correctly determined the families’ eligibility. Last year the department’s sample testing identified that for about 49 percent of the families enrolled in the program, the counties were either missing documents to support household members’ relationships, assets or income, or had incomplete applications. Without this information, the department’s reviewers were unable to determine whether these families were eligible for benefits. This year the department found the county workers did not obtain all required information for about 59 percent of the families.²⁰

¹⁷ Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, (Finding 1), issued March 24, 2016.

¹⁸ See Appendix C (page 23) for federal award numbers for this program.

¹⁹ *Minnesota Statutes* 2015, 256J.11; 256J.12; 256J.14; 256J.20; 256J.21; 256J.30, subd. 11; and 256J.42.

²⁰ The department’s reviewers found that 141 of 240 families in fiscal year 2016, or 59 percent, might not have been eligible for the program or may have been improperly dropped from the program even though eligible.

In response, the department implemented new procedures in March 2016 to have its program staff work with the county workers and obtain the information needed to determine eligibility. The department's program staff began tracking and monitoring how the counties resolved questions raised by the department's eligibility testing. The department also clarified its policies, identified additional guidance the county workers needed, and presented that information at the annual meeting with county workers, mentor meetings, or through its website.

To assess the effectiveness of the department's oversight, we looked back at 10 percent of the families reviewed by the department for fiscal year 2016 to verify the accuracy of the reviewers' work, whether the department followed up with the counties, and the final resolution of those families' eligibility status. We did not identify any errors in the department's review process. Of the 24 families we reviewed, the department's follow up procedures identified that 8 of the 24 families were indeed ineligible for benefits.

The department seems to be taking steps in the right direction; however, it is too soon to conclude whether the department's efforts will significantly decrease the number of inaccurate eligibility determinations.

Inadequate oversight of elderly and disabled enrollees' eligibility – In fiscal year 2016, county workers made errors while enrolling elderly and disabled people in the Medical Assistance (CFDA 93.778) program.²¹ We tested 40 elderly and disabled enrollees to determine if counties made appropriate eligibility determinations, including obtaining any required documents to verify an enrollee's income and assets. During our reviews, we found 4 of 40 enrollees, or 10 percent, were not eligible for Medical Assistance. Table 2 shows the reasons these four people were not eligible and the benefit amount the department overpaid.

²¹ See Appendix C (page 23) for federal award numbers for this program. The income methodology for elderly and disabled people is not based on the *modified adjusted gross income* method. The *Compliance Supplement* required us to test this group of people enrolled in the Medical Assistance program.

Table 2
Medical Assistance Eligibility Determination Errors
for the Elderly and Disabled Enrollees
Fiscal Year 2016

<u>Reason Enrollees were Ineligible</u>	<u>Overpayment^a</u>
Assets over the limit:^b	
Worker did not include available real property ^c	\$2,696
Worker did not use the correct bank balance	122
Worker did not verify the enrollee's bank balance	122
Income over the limit:^b	
Enrollee did not report pension income	<u>105</u>
Total Overpayment	<u>\$3,045</u>

^a The overpayments in this table are the medical expenses the department paid in the month the county worker reverified whether the enrollees remained eligible for the program.

^b *Minnesota Statutes* 2016, 256B.056, sub 1a (a) (1) establish the asset and income limits for elderly and disabled enrollees.

^c Assets are available if the owner has both the legal authority and actual ability to use them or to convert them to cash.

Source: Auditor-determined based on verification of eligibility requirements for a sample of enrollees.

Until October 2015, the department had been reviewing the eligibility of a sample of elderly and disabled Medical Assistance enrollees. When the department conducted these reviews, the reviews ensured the county worker complied with the department's policies and procedures and whether the enrollee was eligible for benefits. The reviewers gave the potential eligibility errors to the department program staff, and the program staff reviewed whether they agreed with the potential errors. Through its sample reviews, the department could identify changes needed in its policies, procedures and training to help county workers avoid future errors. However, the department discontinued these case reviews in October 2015.

Verifying the eligibility of people enrolled in the public assistance programs is challenging because of the complexity of the eligibility requirements and the unique circumstances of applicants. However, it is one of the department's essential and fundamental responsibilities to ensure the state complies with federal and state laws and only pays benefits for eligible people.

Recommendations

- *The Department of Human Services should continue to identify and thoroughly analyze the causes of incorrect eligibility determinations, continue to educate the county workers, and ensure only eligible families receive Temporary Assistance for Needy Families benefits.*
- *The Department of Human Services should reinstate reviewing a sample of elderly and disabled Medical Assistance enrollees, analyzing the causes of incorrect eligibility determinations, educating county workers, and ensuring only eligible enrollees receive benefits.*

Finding 2 **The Department of Human Services did not ensure county workers with access to the department’s computer systems needed the access. This is a repeat finding.**²²

The department did not ensure that the Office of MN.IT Services (MN.IT) had counties complete an annual recertification of county workers’ access to various state systems.²³ Thousands of county workers have access to these systems to enable them to determine eligibility for public assistance enrollees and/or to process payments on behalf of these enrollees.²⁴ An annual recertification helps ensure the access provided to each of these county workers is still needed. MN.IT is responsible on behalf of the department to verify that counties complete and submit recertifications for their employees.²⁵ MN.IT had not requested any recertification documents from the counties in fiscal year 2016. MN.IT staff told us they plan to complete the recertification process by July 2017.

²² Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, (Finding 2), issued March 24, 2016.

²³ The department’s systems include software applications used by department and county employees to determine the eligibility of recipients on public assistance and process various benefit payments. These include: Minnesota Eligibility Child Care, MAXIS (the cash and food assistance system), Medicaid Management Information System, MNsure/Minnesota Eligibility Technology System, Social Services Information System, and PRISM (the child support enforcement system).

²⁴ This finding applies to the following fiscal year 2016 major federal programs: Supplemental Nutrition Assistance Program (CFDA 10.551), Temporary Assistance for Needy Families (CFDA 93.558), Child Care and Development Fund Cluster (CFDA 93.575 and 93.596), Foster Care (CFDA 93.658), Children’s Health Insurance Program (CFDA 93.767), Basic Health Program (CFDA 93.640) and Medical Assistance Program (CFDA 93.778). This finding also applies to the Child Support Enforcement (CFDA 93.563, Federal Award Numbers 1504MNCSES and 1604MNCSES) and Social Services Block Grant (CFDA 93.667, Federal Award Numbers 1401MNSOSR, 1501MNSOSR and 1601MNSOSR) programs that were major federal programs in fiscal year 2015. See Appendix C (page 23) for federal award numbers for this program.

²⁵ The Office of MN.IT Services provides information technology services to the Department of Human Services and other state agencies.

Good information technology controls require that entities restrict access to computer systems to only users who need the access to accomplish assigned tasks. It also requires a periodic review of the access granted to ensure that only current employees with valid business needs have access to the electronic systems.²⁶

By not ensuring that counties recertify that their employees still need the access they have, the department increased the risk that workers who are no longer employed by the counties or who do not have a business need may misuse the computer systems.

Recommendation

- *The Department of Human Services should work with the Office of MN.IT Services to ensure counties annually recertify that their employees have job-related duties corresponding to their access to the department's computer systems.*

The Department of Human Services did not consistently reduce enrollees' cash assistance benefits when the enrollees refused to cooperate with child support enforcement requirements. This is a repeat finding.²⁷

Finding 3

The department did not reduce Temporary Assistance for Needy Families (CDFR 93.558) cash assistance benefits for 10 of 60, or about 17 percent, of enrollees tested who refused to cooperate with child support enforcement requirements during fiscal year 2016.²⁸ During fiscal year 2016, about 2,500 cash assistance enrollees did not cooperate.

Federal regulations require state agencies to reduce an enrollee's cash assistance benefits by no less than 25 percent when the enrollee refuses to cooperate with establishing paternity or establishing, modifying, or enforcing a support order with respect to a child in the care of an enrollee.²⁹ The department chose to reduce the benefits by 30 percent.³⁰ When a custodial parent or care giver refuses to cooperate with child support enforcement requirements, the county worker receives an automated notification to reduce the enrollee's benefits.

²⁶ National Institute of Standards and Technology 800-53, Revision 4, Audit Control-6 "Least Privilege," Control Enhancement (7), and Minnesota Management and Budget's Statewide Operating Policy, *Security and Access*, Number 1101-07.

²⁷ Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, (Finding 3), issued March 24, 2016.

²⁸ See Appendix C (page 23) for federal award numbers for this program.

²⁹ 45 *CFR*, sec. 264.30.

³⁰ Department of Human Services Combined Manual, Child Support Sanctions, section 12.24.

Table 3 shows the amounts the department overpaid the 10 enrollees during the months the enrollees did not cooperate with child support requirements during fiscal year 2016.

Table 3
Cash Assistance Benefits Overpaid while
Enrollees did not Cooperate with Child Support Requirements
During Fiscal Year 2016

Number of Enrollees	Number of Months of Not Cooperating	Amount of Cash Benefits Overpaid
4	1	\$ 944
2	2	594
3	3	946
1	4	1,451
Total Overpayment		<u>\$3,935</u>

Source: Auditor-determined based on review of information in the cash and food assistance system and child support system for a sample of the enrollees not cooperating with child support enforcement requirements.

Federal regulations allow the federal Department of Health and Human Services to penalize states who fail to substantially comply with these requirements.³¹

Recommendation

- *The Department of Human Services should develop a procedure to identify and review enrollees who do not cooperate with child support requirements and ensure county workers reduce cash assistance benefits when required.*

Finding 4

The Department of Human Services did not always perform on-site licensing reviews of child care centers within the required timeframe. This is a repeat finding.³²

The department licenses all child care centers in the state of Minnesota. Many child care centers receive federal money from the department because they provide services to families eligible to participate in the Child Care and Development Fund program (CFDA 93.575 and 93.596).³³ The Child Care and

³¹ 45 CFR, sec. 264.31.

³² Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, (Finding 4), issued March 24, 2016.

³³ 45 CFR, Part 98, established the Child Care and Development Fund (CCDF). The purpose of the fund is to increase the availability, affordability, and quality of child care services. This program offers federal funding to states, Indian Tribes, and tribal organizations in order to provide low-income families with necessary child care services and to enhance the quality of child care and early development programs. See Appendix C (page 23) for federal award numbers for this program.

Development Fund allows each state maximum flexibility in developing child care programs and policies that best suit the needs of children and parents within the state.

In addition to paying for eligible families' child care, the department uses money from the fund to administer the program. In the Child Care and Development Fund plan it submits to the federal government,³⁴ the department certifies that it has procedures in place to ensure that child care centers comply with applicable state health and safety requirements.³⁵ The plan states that the department's licensing staff will perform on-site reviews of child care centers once every two years to ensure compliance with these requirements.³⁶

The department, however, did not always perform on-site reviews of child care centers once every two years. We selected 40 child care centers for review and found that the department delayed on-site reviews beyond two years for 19 centers, with an average delay of three months. Table 4 below shows the results from our testing.

Table 4
Length of the Delays in
Child Care Center On-Site Licensing Reviews

<u>Delay in Reviews (in months)</u>	<u>Number of</u> <u>Child Care Centers</u>
2 months or under	8
Between 3 and 4 months	5
Between 5 and 6 months	5
Between 7 and 8 months	<u>1</u>
Total delayed reviews	19

Source: Auditor-prepared based on documentation provided by the department's licensing division.

During on-site licensing reviews, the state inspectors can verify that the child care centers met requirements pertaining to the prevention and control of infectious diseases, the safety of building and physical premises, and providers' training for basic health and safety practices. Without timely on-site licensing reviews, health and safety issues may exist at child care centers and not be detected and corrected.

³⁴ The department submits its plan to the U.S. Department of Health and Human Services' Administration for Children and Family (ACF).

³⁵ 45 *CFR*, sec. 98.41 (d), requires the department to certify that procedures are in effect to ensure that child care service providers comply with applicable health and safety requirements.

³⁶ Child Care Development Plan, section 5.2.2.(b).

A key feature of the federal Child Care and Development Block Grant Act of 2014,³⁷ which reauthorizes the Child Care and Development Fund program, includes an increased focus on the improved health and safety of children. One of the changes requires an annual, unannounced, on-site review of licensed child care centers.³⁸ The department must demonstrate the ability to comply with this requirement by September 30, 2017.

Recommendation

- *The Department of Human Services should ensure it performs on-site reviews and enforces licensing requirements for child care centers according to federal requirements.*

³⁷ Public Law 113-186.

³⁸ Public Law 113-186, sec. 5 (b)(2)(K)(II)(bb).

Appendix A

Expanded Discussion of Audit Methodology

Each year, the federal Office of Management and Budget issues a *Compliance Supplement* that gives auditors guidance on how to conduct the audit of federal programs. Auditors must determine the effectiveness of the entity's internal controls and whether it complied with certain federal requirements. Following are examples of the most common testing procedures we conducted.

Internal Controls – To verify the effectiveness of internal controls we verified whether:

- Department staff reconciled the financial activity in the department's computer systems to the state's accounting system.³⁹ This reconciliation ensured the integrity of the information in both systems.
- An appropriate person approved the payments made through the state's accounting system. Without proper approval of payments, the risk of inappropriate or fraudulent payments increases.
- The department had procedures to ensure employees and county workers had appropriate access to the state's accounting and payroll systems and the department's computer systems. By giving people more access to systems than necessary to perform their job responsibilities, the department risks people misusing the systems.
- The department had current and relevant policies and procedures for its administration of the public assistance programs. Policies and procedures help ensure the department staff and county workers understand how to perform their job responsibilities and management's expectations.
- Office of MN.IT Services staff, on behalf of the department, followed written policies and procedures when making changes to the medical payment system. The policies and procedures help ensure the system changes are authorized, necessary, and operating as intended.
- An independent person reviewed the accuracy of reports the department submitted to the federal government.
- The department's internal auditors accurately reviewed a sample of people's eligibility in the public assistance programs, and the department followed up on those people that may not be eligible for benefits.

³⁹ SWIFT is the state's accounting system. The department's computer systems include software applications used by department and county employees to determine the eligibility of recipients on public assistance and process various benefit payments. These include: Minnesota Eligibility Child Care, MAXIS (the cash and food assistance system), Medicaid Management Information System, MNsure/Minnesota Eligibility Technology System, Social Services Information System, and PRISM (the child support enforcement system).

Compliance – To verify the department complied with the federal requirements listed in the *Compliance Supplement*, we:

- Analyzed the financial activity in the state’s accounting system to identify unexpected trends and followed up with department staff to ensure the department used the federal funds in accordance with federal regulations.
- Analyzed the federal grant money the department received and ensured the department complied with the written agreement the State of Minnesota had with the U.S. Treasury. The agreement outlines how the state requests federal grant money for specific federal programs. If the agreement did not include a major federal program, we ensured the department minimized the time between incurring expenditures and requesting the federal grant money as outlined in federal regulations.⁴⁰
- Reviewed documents for a sample of people enrolled in the public assistance programs and ensured they met the eligibility requirements and received the correct benefits.⁴¹
- Analyzed financial data and reviewed the accuracy of reports submitted to the federal government to ensure:
 - the department contributed the minimum required state funding and/or levels of additional services, and
 - met the federal requirements that specify a minimum or maximum amount or percentage of funding that must be used for specific activities.
- Analyzed financial data to ensure the department spent the federal grant money within the required timeframe.
- Compared the information in federal reports to information in the various computer systems and source documents to ensure the accuracy of the reports.
- Verified the department had procedures to ensure sub-grantees, including counties, tribes, and nonprofit organizations, used the federal funds in compliance with federal regulations.

⁴⁰ 31 *CFR*, Part 205, Subpart B.

⁴¹ As explained in the *Limitation of Public Health Program Eligibility Testing* section on page 6 of this report, we did not test whether certain people enrolled in Medical Assistance, Children’s Health Insurance Program, and the Basic Health Program met federal and state eligibility requirements.

Special Tests – The federal *Compliance Supplement* outlines specific requirements that are unique to each of the federal programs and how the auditors should verify the department met those requirements. The *Compliance Supplement* refers to these as Special Tests. Some of these tests include, ensuring:

- The department analyzed risks related to the health care computer systems.
 - The department's cash and food assistance system correctly processed and stored information.
 - The health and child care providers had current licenses to participate in the federal programs.
 - The state performed health and safety inspections of the hospitals, long-term care, and child care facilities.
 - The department had procedures to identify and investigate fraudulent activity.
 - The department appropriately reduced cash assistance benefits to people not cooperating with child support requirements or refusing to work.
-



Appendix B

Status of Prior Federal Compliance Audit Findings

This appendix shows the status of the prior findings listed in the Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, issued March 24, 2016. We determined the status of these prior findings based on the work done for this report.

**Appendix B
Department of Human Services
2016 Federal Compliance Audit
Status of Prior Findings^a**

Prior Finding Number	Prior Finding	Status	New Finding Number
1	The Department of Human Services did not ensure the effectiveness of controls over eligibility determinations for Medical Assistance, Basic Health, Temporary Assistance for Needy Families, Child Care and Development Fund, and Supplemental Nutrition Assistance programs.	Partially Resolved ^b	1
2	The Department of Human Services did not ensure county workers with access to the department's computer systems needed the access.	Not Resolved	2
3	The Department of Human Services did not consistently reduce recipients' cash assistance benefits when the recipient refused to cooperate with child support enforcement requirements.	Not Resolved	3
4	The Department of Human Services did not always perform on-site licensing reviews of child care centers within the required timeframe.	Not Resolved	4
5	DHS did not accurately split costs related to the Children's Health Insurance Program between federal and state funding percentages, overcharging the federal share by \$241,814.	Resolved	N/A

^a Office of the Legislative Auditor, Financial Audit Division Report 16-06, *Department of Human Services Federal Compliance Audit*, issued March 24, 2016.

^b The **Medical Assistance** portion of this finding related to people enrolled through the state's eligibility system (MNsure/METS). We did not follow up on this portion of the prior finding as discussed in the *Limitation of Public Health Program Eligibility Testing* section of our current report (page 6). The Medical Assistance portion in the new Finding 1 relates to elderly and disabled enrollees, and the department used its legacy system (MAXIS) to determine eligibility for these enrollees. The department made significant improvements to its controls over eligibility determinations for the **Child Care and Development Fund** program and reduced its eligibility error rate to a reasonable level. Finally, the department improved its oversight of the income discrepancy resolutions and complied with the federal regulation to resolve at least 80 percent of the discrepancies within 45 days. This prior finding impacted the **Supplemental Nutrition Assistance** and the **Temporary Assistance for Needy Families** programs. The department continued to have high error rates in the Temporary Assistance for Needy Families program eligibility determinations, and that portion of the prior finding we repeat in the new Finding 1.

Source: Office of the Legislative Auditor.



Appendix C

Federal Award Numbers

This appendix shows the federal award numbers for each of the major federal programs at the Department of Human Services.

Appendix C
Major Federal Programs
Department of Human Services
Fiscal Year 2016

CFDA ^a	Program Name	Federal Award Number
	<u>Supplemental Nutrition Assistance Program Cluster</u>	
10.551	Supplemental Nutrition Assistance Program	2014IS601842, 2015IS601842, 2015IS604542, 2015IS806942, 201616S601842, 201616S604542
10.561	State Administrative Matching Grants	2012IS820442, 2014IQ390342, 2014IS251942, 2015IS803642, 2015IS252042, 2015IS251942, 2015IS251442, 2015IQ750342, 2015CQ750342, 2015IQ390342, 201616S803642, 201616S252042, 201616S251942, 201616S251442, 201616Q750342, 201616Q390342
93.558	Temporary Assistance for Needy Families Cluster	1102MNTANF, 1302MNTANF, 1402MNTANF, 1502MNTANF, 1601MNTANF
	<u>Child Care and Development Fund Cluster</u>	
93.575	Child Care and Development Block Grant	1401MNCCDF, 1501MNCCDF, 1601MNCCDF
93.596	Child Care Mandatory and Matching Fund	1401MNCCDF, 1501MNCCDF, 1601MNCCDF
93.640	Basic Health Program	BHP ¹
93.658	Foster Care – Title IV-E	1401MN1401, 1501MNFOST, 1601MNFOST
93.767	Children’s Health Insurance Program	1505MN1081, 1505MN5021, 1605MN5021
	<u>Medicaid Cluster</u>	
93.775	State Medical Fraud Control Units	1501MN5050, 1601MN5050
93.777	State Health Care Providers Survey	1505MN5001, 1605MN5001
93.778	Medical Assistance Program	1405MN5MAP, 1405MNINCT, 1405MN5ADM, 1505MNINCT, 1505MN5MAP, 1505MN5ADM, 1605MNIMPL, 1605MN5MAP, 1605MN5ADM, 1605MNINCT

^a The US Department of Health and Human Services’ Center for Medicare and Medicaid Services did not issue a federal award number for the Basic Health Program.

Source: The state accounting system and staff at the Department of Human Services and Office of the Attorney General.



Minnesota Department of Human Services**Commissioner Emily Piper****Post Office Box 64998****St. Paul, Minnesota 55164-0998**

March 21, 2017

James R. Nobles, Legislative Auditor

Office of the Legislative Auditor

Centennial Office Building

658 Cedar Street

St. Paul, Minnesota 55155

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the findings in the Department of Human Services' Federal Compliance Audit for fiscal year ending June 30, 2016. We appreciate and value the thorough examination of our major federal programs, and have appreciated the opportunity to work with your dedicated and professional staff during this audit.

We are encouraged by the progress we've made in our internal control environment; this is the fewest findings and recommendations we have had in a single audit since 2001. However, we are disappointed that the four remaining findings are all prior year issues, which we have been unable to resolve. We will work hard again this year to maintain the strong controls over all operations, and to resolve the remaining issues you have identified in this report.

Below, please find the department's responses to the findings and recommendations in the 2016 Federal Compliance Audit.

Audit Finding 1

The Department of Human Services did not adequately ensure eligibility requirements were met for families receiving Temporary Assistance for Needy Families benefits and the elderly and disabled people receiving Medical Assistance benefits. This is a repeat finding for the Temporary Assistance for Needy Families program.

Audit Recommendation 1-1

The Department of Human Services should continue to identify and thoroughly analyze the causes of incorrect eligibility determinations, continue to educate county workers, and ensure only eligible families receive Temporary Assistance for Needy Families benefits.

Response to Audit Recommendation 1-1

The department **agrees with the finding and recommendation**. The department implemented an extended review process, which confirmed that procedural errors do not always result in errors in eligibility determination. Having now established a successful extended review process, the department plans to use the findings to identify patterns in the errors and develop systemic solutions. That second stage of analysis will inform the efforts to:

- Provide additional training needed for county staff;
- Communicate more clearly through manuals and bulletins;
- Identify opportunities for process improvements and efficiencies; and
- Suggest legislative fixes to program complexity.

The department will also work with counties around their internal auditing processes. The department would like to assist counties with proactively identifying potential errors before cases are reviewed at the State level. This should improve error rates, as this will allow counties to proactively address missing verifications or other items that could result in technical or procedural errors identified by subsequent audits.

Responsible Person: Jovon Perry, Director, Economic Assistance and Employment Services
 Estimated Completion Date: September 30, 2017

Audit Recommendation 1-2

The Department of Human Services should reinstate reviewing a sample of elderly and disabled Medical Assistance enrollees, analyzing the causes of incorrect eligibility determinations, educating county workers, and ensuring only eligible enrollees receive benefits.

Response to Audit Recommendation 1-2

The department agrees with the finding and recommendation. Current and upcoming eligibility audit projects directed by the Centers for Medicare & Medicaid Services include non-MAGI cases. We will make sure sufficient numbers of non-MAGI cases are included in the sampling conducted for these audits.

Responsible Person: Gary L. Johnson, Director of Internal Audits
 Estimated Completion Date: December 31, 2017

Audit Finding 2

The Department of Human Services did not ensure county workers with access to the department’s computer systems needed the access. This is a repeat finding.

Audit Recommendation 2

The Department of Human Services should work with the Office of MN.IT Services to ensure counties annually recertify their employees have job-related duties corresponding to their access to the department's computer systems.

Response to Audit Recommendation 2

The department and the Office of MN.IT Services (MN.IT) agree with the finding and recommendation. MN.IT is working with the department to implement a new recertification process, and to ensure timely completion of recertification reports. A project is underway with assigned resources.

Responsible Persons: Chris Luhman, Information Security Manager, MN.IT @ DHS
 Gary Johnson, Director, Internal Audits Office
 Estimated Completion Date: December 31, 2017

Audit Finding 3

The Department of Human Services did not consistently reduce enrollees' cash assistance benefits when the enrollees refused to cooperate with child support enforcement requirements. This is a repeat finding.

Audit Recommendation 3

The Department of Human Services should develop a procedure to identify and review enrollees who do not cooperate with child support requirements and ensure county workers reduce cash assistance benefits when required.

Response to Audit Recommendation 3

The department agrees with the finding and recommendation. The department will examine cases where child support sanctions were not imposed, to identify root causes behind the high number of delays in imposing sanctions in situations where families are not cooperating with child support. Additionally, the department is working to update the MAXIS system to prevent the deletion of sanction notices sent to county caseworkers until the notice has been processed. The department is also providing clearer guidance around timely sanctions from Child Support via the Combined Manual (CM). This update to the CM will clarify that sanctions can be imposed in the next applicable eligibility month.

Responsible Person: Jovon Perry, Director, Economic Assistance and Employment Services
Estimated Completion Date: December 31, 2017

Audit Finding 4

The Department of Human Services did not always perform on-site licensing reviews of child care centers within the required timeframe. This is a repeat finding.

Audit Recommendations 4

The Department of Human Services should ensure it performs on-site reviews and enforces licensing requirements for child care centers according to federal requirements.

Response to Audit Recommendation 4

The State currently employs 9.5 child care licensors, 2 supervisors and 1 manager, who are responsible for monitoring 1,750 child care centers. This results in a caseload ratio of approximately 1:175. The funding of child care center licensing staff is supported largely by licensing fees. Increasing staff sufficient to ensure 100% compliance with a two-year review cycle would require additional resources and funding, which could significantly increase licensing fees.

In addition, the federal Child Care and Development Block Grant Act of 2014, enacted on November 19, 2014, will require several significant changes for child care center licensing activities. Many of the changes will require state law changes, funding, and/or systems programming changes. Perhaps the most significant changes for child care licensing activities is the requirement for States to conduct annual, unannounced inspections of child care centers (and family child programs) to monitor for compliance with all child care licensing standards. While the new law does not mandate a caseload ratio, it does require the State to certify it has policies and procedures in place to successfully achieve annual, unannounced inspections. Failure to meet this benchmark, could result in financial penalties against the CCDF block grant.

DHS is preparing for implementation of these provisions, which will require passage of state legislation and the identification of additional resources to meet the more demanding inspection and monitoring requirements. In 2016, the Governor recommended the Legislature provide additional funding to hire licensors in sufficient numbers to ensure annual inspections, but the bill did not advance in a non-budget year. The Governor's recommendation for additional funding is still under consideration for the 2017 Legislature. If additional funding is approved, DHS anticipates complying by December 2018.

Responsible Person: Regina Wagner, Licensing Deputy Inspector General
Estimated Completion Date: December 31, 2018

Thank you again for the professional and dedicated efforts of your staff during this audit. 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,

A handwritten signature in black ink that reads "Emily Piper". The signature is written in a cursive, flowing style.

Emily Piper
Commissioner

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