

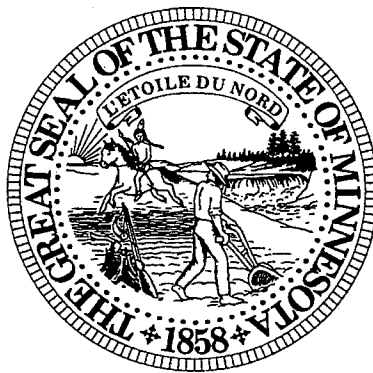
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State of Minnesota

For the Year
Ended
June 30, 2004

Minnesota Financial and Compliance Report on Federally Assisted Programs

State of Minnesota



Financial and Compliance Report

on

Federally Assisted Programs

For the Year Ended

June 30, 2004

The Minnesota Financial and Compliance Report on Federally Assisted Programs can be made available in alternative formats upon request, to ensure that it is accessible to people with disabilities. To obtain this document in an alternate format, contact:

Minnesota Department of Finance
400 Centennial Office Building
658 Cedar Street
Saint Paul, Minnesota 55155-1489
651/297-1326

The Minnesota Relay service phone number is 1-800-627-3529.

The Minnesota Financial and Compliance Report on Federally Assisted Programs is available at the following web site:

<http://www.finance.state.mn.us/>

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2004

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March 18, 2005

The Honorable Tim Pawlenty, Governor

Members of the Legislature

I am submitting the State of Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 2004. This report meets the requirements of the Federal Single Audit Act of 1984 as amended in 1996 and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

This single audit report includes all federal assistance received by the state agencies determined to be a part of the primary government and its blended component units. The criteria used to define the state's reporting entity are those established by the Governmental Accounting Standards Board. All federal program activity of this reporting entity was included under the state's single audit. Programs administered by discretely presented component units are reported in separate single audit reports issued by the individual entities.

For purposes of the single audit in Minnesota, the audited entity is the state rather than each state agency. With this approach, the single audit can be combined with the annual financial audit. This is an efficient approach for Minnesota because state agencies are all subject to the same centralized controls (the accounting, personnel/payroll and procurement systems).

Management Responsibilities

The Department of Finance is responsible for the accuracy, fairness and completeness of the financial schedules, including all disclosures, presented in this report. The department is also responsible for the Minnesota Accounting and Procurement System (MAPS), which was used in preparing this report. I believe these schedules provide a fair representation of financial activity for federal programs for the year ended June 30, 2004.

The Department of Finance is responsible for designing and applying the statewide internal controls. State agencies are responsible for additional internal controls used for the administration of federal programs. These controls provide reasonable assurance that the state's assets are protected against loss, either intentional or unintentional; that resource use is consistent with laws, regulations and policies; that transactions are executed in accordance with management's authorization; and that the accounting records from which the financial schedules were prepared are reliable. The concept of reasonable assurance recognizes that the cost of control should not exceed the benefit derived.

In addition, state agencies have specific responsibilities for federal programs. State agencies are required to manage and maintain adequate accounting records for their federal programs. They are required by the relevant federal departments and agencies to prepare periodic financial reports. State agencies are also responsible for assuring that organizations to which they subgrant federal funds have the required audits and promptly resolve federal program deficiencies reported as a result of those audits. The U.S. Department of Health and Human Services - Office of Inspector General - National External Audit Resources serves as the lead cognizant agency representing all federal agencies awarding federal assistance to the state of Minnesota.

Federal Financial Assistance to the State of Minnesota

In fiscal year 2004, the state of Minnesota received approximately \$7.2 billion in federal assistance for its many programs.

Audits

The Minnesota Office of the Legislative Auditor performs an annual statewide audit primarily for the purpose of expressing an audit opinion on the financial statements included in the state's Comprehensive Annual Financial Report prepared by the Department of Finance. Another purpose of the statewide audit is to provide information to the Governor, Legislature and heads of state agencies concerning financial and accounting issues involving the state and its agencies. The scope of the annual statewide audit also includes the federal requirements of the Single Audit Act and OMB Circular A-133.

The Office of the Legislative Auditor has audited the federal programs financial schedules and their report on them is included as a part of this report. Also included are Office of the Legislative Auditor reports on internal control and compliance.

All subrecipients receiving federal assistance from Minnesota state agencies have been required to have audits in accordance with OMB Circular A-133. State agencies are responsible for assuring that their subrecipients have audits and resolve audit recommendations resulting from these audits. Results of these audits are summarized in the Report on Audits of Subrecipients issued by the Office of the State Auditor.

Report

This Single Audit Report supplements the state's Comprehensive Annual Financial Report for the year ended June 30, 2004, and includes financial information for federal programs compiled by the Department of Finance.

The Office of the Legislative Auditor is responsible for preparing the auditor's reports on internal control and compliance; summary of auditor's results; and the schedules of audit findings for statewide financial statements and federal programs. The Department of Finance is responsible for preparing the schedules of expenditures for federal programs, and the status of prior federal program audit findings schedule.

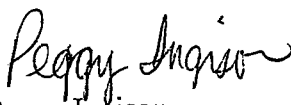
The financial schedules presented are meant to provide a consistent basis for reporting on the expenditures of federal assistance received by state agencies. They are not meant to replace recipient financial reporting currently required for each individual program of federal assistance.

In addition to this financial and compliance report, the single audit for the state of Minnesota includes the departmental audit reports issued by the Office of the Legislative Auditor and the Report on Audits of Subrecipients issued by the Office of the State Auditor.

Acknowledgments

Although the Department of Finance accepts final responsibility for this report, we would like to acknowledge the significant assistance provided by staff in the many state agencies receiving federal assistance. The financial schedules agencies prepared for each of their federal programs were used to compile these financial schedules.

Sincerely,


Peggy Ingison
Commissioner

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Members of the Minnesota State Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, Commissioner of Finance

We have audited the basic financial statements of the State of Minnesota as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), which is both a major fund and 78 percent, 92 percent, and 35 percent, respectively, of the total assets, net assets, and operating revenues of the primary government's business-type activities. We also did not audit the financial statements of the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, Minnesota Workers Compensation Assigned Risk Plan, National Sports Center Foundation, Higher Education Services Office, and Minnesota Partnership for Action Against Tobacco, which cumulatively represent 99 percent, 99 percent, and 99 percent, respectively, of the total assets, net assets, and revenues of the total discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned business-type activities, major proprietary fund, and discretely presented component units, is based solely on the reports of other auditors.

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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Separate reports issued by other auditors on internal control over financial reporting and compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* are available for the University of Minnesota, Metropolitan Council, Housing Finance Agency, Public Facilities Authority, and Higher Education Services Office, which are discretely presented component units. The financial statements of the Minnesota Workers Compensation Assigned Risk Plan, National Sports Center Foundation, and Minnesota Partnership for Action Against Tobacco were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Minnesota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal

Members of the Minnesota State Legislature
The Honorable Tim Pawlenty, Governor
Ms. Peggy Ingison, Commissioner of Finance
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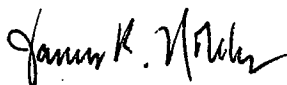
control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Minnesota's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are included in Section II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Minnesota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters required to be reported under *Government Auditing Standards* that are included in Section II of the accompanying Schedule of Findings and Questioned Costs as item KDV-1.

This report is intended solely for the information and use of the management of the State of Minnesota, the governor of the State of Minnesota, and the Minnesota State Legislature and is not intended to be and should not be used by anyone other than these specified parties.



James R. Nobles
Legislative Auditor



Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

November 19, 2004



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Members of the Legislature

The Honorable Tim Pawlenty, Governor

Ms. Peggy Ingison, Commissioner of Finance

Compliance

We have audited the compliance of the State of Minnesota with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement*, that are applicable to each of its major federal programs for the year ended June 30, 2004. The State of Minnesota's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State of Minnesota's management. Our responsibility is to express an opinion on the State of Minnesota's compliance based on our audit.

The State of Minnesota's basic financial statements include the operations of its discretely presented component units, which received approximately \$1.1 billion in federal awards which is not included in the State of Minnesota's schedule of expenditures of federal awards for the year ended June 30, 2004. Our audit, described below, did not include the operations of the State of Minnesota's discretely presented component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Minnesota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the State of Minnesota's compliance with those requirements.

As described in findings 1-7 of report number 05-13 and findings A-1, D-1, H-1 and H-2, R-1 and R-2, and S-1 of report 05-18, which are presented in Section III of the accompanying

Schedule of Findings and Questioned Costs, the State of Minnesota did not comply with requirements regarding Eligibility and Special Tests and Provisions that are applicable to its Medical Assistance and Temporary Assistance to Needy Families programs. Compliance with such requirements is necessary, in our opinion, for the State of Minnesota to comply with requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Minnesota complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section III of the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the State of Minnesota is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State of Minnesota's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

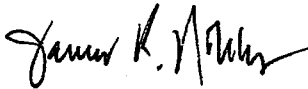
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Minnesota's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are identified and described in Section III of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider findings 1-7 of report number 05-13 and findings A-1, D-1, H-1 and H-2, R-1 and R-2, and S-1 of report 05-18 to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Minnesota, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 19, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Minnesota's basic financial statements. We did not audit the financial statements of the Minnesota State Colleges and Universities (MnSCU), or the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Minnesota State Colleges and Universities and the discretely presented component units, is based on the reports of other auditors. The accompanying Schedule of Expenditures of Federal Awards is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management of the State of Minnesota, the governor of the State of Minnesota, the Minnesota Legislature, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



James R. Nobles
Legislative Auditor



Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

March 11, 2005, except for Schedule of Expenditures of Federal Awards as to which the date is November 19, 2004

**STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
AGRICULTURE				
	FOOD DISTRIBUTION	10.550	EDUCATION	\$ 20,990,236
			Program	Total: \$ 20,990,236
	SPECIAL NUTRITION/WOMEN/INFANTS & CHILDREN (5)	10.557	HEALTH	66,401,765
			Program	Total: \$ 66,401,765
	CHILD & ADULT CARE FOOD PROGRAM	10.558	EDUCATION	51,554,233
		10.558	STATE COLLEGES & UNIVERSITIES	12,435
			Program	Total: \$ 51,566,668
Child Nutrition Cluster				
	SCHOOL BREAKFAST PROGRAM	10.553	EDUCATION	18,134,581
	NATIONAL SCHOOL LUNCH PROGRAM	10.555	EDUCATION	83,737,828
		10.555	HUMAN SERVICES	5,408
	SPECIAL MILK PROGRAM FOR CHILDREN	10.556	EDUCATION	709,275
	SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	EDUCATION	2,721,075
			Child Nutrition Cluster Total:	\$ 105,308,167
Food Stamp Cluster				
	FOOD STAMPS	10.551	HUMAN SERVICES	242,273,531
	STATE ADMIN MATCH GRANT-FOOD STAMPS	10.561	HUMAN SERVICES	37,261,643
			Food Stamp Cluster Total:	\$ 279,535,174
EDUCATION				
	TITLE 1 GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	EDUCATION	111,918,158
			Program	Total: \$ 111,918,158
	VOCATIONAL REHABILITATION GRANTS	84.126	EMPLOYMENT & ECONOMIC DEV.	44,301,701
			Program	Total: \$ 44,301,701
	READING EXCELLENCE	84.338	EDUCATION	9,005,938
			Program	Total: \$ 9,005,938
	IMPROVING TEACHER QUALITY STATE GRANTS	84.367	EDUCATION	21,024,735
		84.367	STATE COLLEGES & UNIVERSITIES	440,909
			Program	Total: \$ 21,465,644

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
EDUCATION (Continued)				
Special Education Cluster				
	SPECIAL EDUCATION-STATE GRANTS	84.027	EDUCATION	\$ 146,701,111
		84.027	STATE COLLEGES & UNIVERSITIES	15,190
	SPECIAL EDUCATION-PRESCHOOL GRANTS	84.173	EDUCATION	7,579,260
		84.173	STATE COLLEGES & UNIVERSITIES	81,283
	Special Education Cluster Total:			\$ 154,376,844
Student Financial Assistance Cluster				
	SUPPLEMENTAL EDUCATION OPPORTUNITY	84.007	STATE COLLEGES & UNIVERSITIES	5,313,686
	FEDERAL WORK-STUDY	84.033	STATE COLLEGES & UNIVERSITIES	6,251,867
	FEDERAL PELL GRANT	84.063	STATE COLLEGES & UNIVERSITIES	107,884,044
	Student Financial Assistance Cluster Total:			\$ 119,449,597
HEALTH & HUMAN SERVICES				
	CENTER FOR DISEASE CONTROL & PREVENTION	93.283	HEALTH	26,361,032
			Program Total:	\$ 26,361,032
	TEMPORARY AID FOR NEEDY FAMILIES	93.558	HUMAN SERVICES	216,536,177
			Program Total:	\$ 216,536,177
	CHILD SUPPORT ENFORCEMENT	93.563	HUMAN SERVICES	101,860,797
			Program Total:	\$ 101,860,797
	LOW INCOME HOME ENERGY ASSISTANCE	93.568	COMMERCE	74,414,244
			Program Total:	\$ 74,414,244
	FOSTER CARE	93.658	HUMAN SERVICES	64,760,531
			Program Total:	\$ 64,760,531
	SOCIAL SERVICES BLOCK GRANT	93.667	HUMAN SERVICES	33,223,198
			Program Total:	\$ 33,223,198
	STATE CHILDREN'S INSURANCE PROGRAM	93.767	HUMAN SERVICES	85,676,879
			Program Total:	\$ 85,676,879
	SUBSTANCE ABUSE PREVENTIVE TREATMENT	93.959	HUMAN SERVICES	20,788,311
			Program Total:	\$ 20,788,311
Child Care Cluster				
	CHILD CARE & DEVELOPMENT BLOCK	93.575	HUMAN SERVICES	41,496,563
		93.575	STATE COLLEGES & UNIVERSITIES	70,542

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
HEALTH & HUMAN SERVICES (Continued)				
	CHILD CARE MANDATORY & MATCHING FUNDS	93.596	HUMAN SERVICES	\$ 44,440,560
			Child Care Cluster Total:	\$ 86,007,665
	Medicaid Cluster			
	STATE MEDICAID FRAUD CONTROL UNITS	93.775	ATTORNEY GENERAL	849,776
	STATE HEALTH CARE PROVIDERS SURVEY	93.777	HEALTH	6,509,419
		93.777	HUMAN SERVICES	4,776,567
	MEDICAL ASSISTANCE	93.778	HUMAN SERVICES	2,979,915,101
			Medicaid Cluster Total:	\$ 2,992,050,863
LABOR				
	UNEMPLOYMENT INSURANCE (6)	17.225	EMPLOYMENT & ECONOMIC DEV.	952,464,536
			Program Total:	\$ 952,464,536
	Employment Services Cluster			
	EMPLOYMENT SERVICE	17.207	EMPLOYMENT & ECONOMIC DEV.	22,970,866
		17.207	STATE COLLEGES & UNIVERSITIES	258
	DISABLED VETERANS OUTREACH PROGRAM	17.801	EMPLOYMENT & ECONOMIC DEV.	1,588,682
	LOCAL VETERANS' EMPLOYMENT REPRESENTATIVE	17.804	EMPLOYMENT & ECONOMIC DEV.	1,309,299
			Employment Services Cluster Total:	\$ 25,869,105
	Workforce Investment Act Cluster			
	WIA ADULT PROGRAM	17.258	EMPLOYMENT & ECONOMIC DEV.	8,493,447
		17.258	STATE COLLEGES & UNIVERSITIES	11,566
	WIA YOUTH ACTIVITIES	17.259	EMPLOYMENT & ECONOMIC DEV.	8,717,065
	WIA DISLOCATED WORKERS	17.260	EMPLOYMENT & ECONOMIC DEV.	17,735,324
		17.260	STATE COLLEGES & UNIVERSITIES	180,028
			Workforce Investment Act Cluster Total:	\$ 35,137,430
SOCIAL SECURITY ADMINISTRATION				
	Disability Insurance/SSI Cluster			
	SOCIAL SECURITY-DISABILITY INSURANCE	96.001	EMPLOYMENT & ECONOMIC DEV.	21,087,605
			Disability Insurance/SSI Cluster Total:	\$ 21,087,605

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
MAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
TRANSPORTATION				
	AIRPORT IMPROVEMENT	20.106	TRANSPORTATION	\$ 67,812,058
			Program	Total: \$ 67,812,058
	MOTOR CARRIER SAFETY ASSISTANCE PROGRAM	20.218	PUBLIC SAFETY	2,958,386
			Program	Total: \$ 2,958,386
	Highway Planning and Construction Cluster			
	HIGHWAY PLANNING & CONSTRUCTION	20.205	EMPLOYMENT & ECONOMIC DEV.	65,246
		20.205	TRANSPORTATION	492,591,987
			Highway Planning and Construction	\$ 492,657,233
			Major Program Total:	\$6,283,985,942

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
AGRICULTURE				
	PLANT/ANIMAL DISEASE/CARE/PEST CONTROLS	10.025	AGRICULTURE	102,188
		10.025	ANIMAL HEALTH	759,112
	CONSERVATION RESERVE PROGRAM	10.069	NATURAL RESOURCES	9,835
	FEDERAL-STATE MARKETING IMPROVEMENT	10.156	AGRICULTURE	83,647
	INSPECTION GRADING & STANDARDIZATION	10.162	AGRICULTURE	262,937
	MARKET PROTECTION AND PROMOTION	10.163	AGRICULTURE	378,788
	AGRICULTURE RESEARCH & SPECIAL RESEARCH	10.200	STATE COLLEGES & UNIVERSITIES	10,848
	AGRICULTURAL COMPETITIVE RESEARCH	10.206	STATE COLLEGES & UNIVERSITIES	65,505
	HIGHER EDUCATION CHALLENGE GRANTS	10.217	STATE COLLEGES & UNIVERSITIES	33,863
	SECONDARY & TWO-YR POSTSECONDARY AG ED	10.226	STATE COLLEGES & UNIVERSITIES	15,849
	BIODIESEL	10.306	ENVIRONMENTAL ASSISTANCE	21,326
	CROP INSURANCE	10.450	AGRICULTURE	47,093
	MEAT & POULTRY INSPECTION STATE PROGRAMS	10.475	AGRICULTURE	519,267
	COOPERATIVE EXTENSION SERVICE	10.500	AGRICULTURE	37,403
	STATE ADMIN EXPENSES FOR CHILD NUTRITION	10.560	EDUCATION	2,159,864
	COMMODITY SUPPLEMENTAL FOOD PROGRAM	10.565	HEALTH	765,823
	WIC FARMERS' MARKET NUTRITION	10.572	AGRICULTURE	468,922
	FORESTRY RESEARCH	10.652	NATURAL RESOURCES	144,601
		10.652	STATE COLLEGES & UNIVERSITIES	109,225
	COOPERATIVE FORESTRY ASSISTANCE	10.664	AGRICULTURE	139,229
		10.664	NATURAL RESOURCES	3,473,877
	ADDITIONAL LANDS-GRANTS TO MINNESOTA	10.668	FINANCE	2,101,500
	COMMUNITY FACILITIES LOANS AND GRANTS	10.766	STATE COLLEGES & UNIVERSITIES	691,006
	RURAL DEVELOPMENT GRANTS	10.769	AGRICULTURE	28,207
	SOIL & WATER CONSERVATION	10.902	AGRICULTURE	8,464
	WATERSHED PROTECTION & FLOOD PREVENTION	10.904	NATURAL RESOURCES	18,740
	TECHNICAL AGRICULTURAL ASSISTANCE	10.960	STATE COLLEGES & UNIVERSITIES	1,358
	INTERNATIONAL AGRICULTURAL RESEARCH	10.961	STATE COLLEGES & UNIVERSITIES	566
Emergency Food Assistance Cluster				
	EMERGENCY FOOD ASSISTANCE-ADMIN COSTS	10.568	HUMAN SERVICES	765,524

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
AGRICULTURE (Continued)				
			Emergency Food Assistance Cluster Total:	\$ 765,524
	Schools and Roads Cluster			
	SCHOOLS AND ROADS-GRANTS TO STATES	10.665	FINANCE	2,035,555
			Schools and Roads Cluster Total:	\$ 2,035,555
COMMERCE				
	ECONOMIC DEVELOPMENT-TECHNICAL ASSIST	11.303	STATE COLLEGES & UNIVERSITIES	90,561
	FISHERY PRODUCTS INSPECTION/CERTIFICATION	11.413	AGRICULTURE	16,370
	COASTAL ZONE MANAGEMENT ADMIN AWARDS	11.419	NATURAL RESOURCES	2,366,604
	CLIMATE AND ATMOSPHERIC RESEARCH	11.431	STATE COLLEGES & UNIVERSITIES	13,182
	METEOROLOGIC & HYDROLOGIC MODERNIZATION DEVEL.	11.467	STATE COLLEGES & UNIVERSITIES	2,405
	Public Works and Economic Development Cluster			
	PUBLIC WORKS & ECONOMIC DEVELOPMENT FACILITIES	11.300	STATE COLLEGES & UNIVERSITIES	181,406
			Public Works and Economic Development	\$ 181,406
DEFENSE				
	REIMBURSEMENT OF TECHNICAL SERVICES	12.113	POLLUTION CONTROL	334,041
	BASIC & APPLIED SCIENTIFIC RESEARCH	12.300	STATE COLLEGES & UNIVERSITIES	32,745
	NATIONAL GUARD BUREAU (8)	12.40x	MILITARY AFFAIRS	26,200,535
EDUCATION				
	ADULT EDUCATION-STATE GRANT			
		84.002	EDUCATION	4,775,644
		84.002	STATE COLLEGES & UNIVERSITIES	36,747
	MIGRANT EDUCATION-BASIC STATE GRANT			
		84.011	EDUCATION	2,641,811
	TITLE I-NEGLECTED & DELINQUENT CHILDREN	84.013	EDUCATION	189,586
	HIGHER EDUCATION-INSTITUTIONAL AID	84.031	STATE COLLEGES & UNIVERSITIES	300,216
	VOCATIONAL EDUCATION-BASIC STATE GRANTS	84.048	STATE COLLEGES & UNIVERSITIES	18,647,166
	DISABLED PERSONS POSTSECONDARY ED	84.078	STATE COLLEGES & UNIVERSITIES	37,589
	IMPROVEMENT OF POSTSECONDARY EDUCATION	84.116	STATE COLLEGES & UNIVERSITIES	980,045
	REHABILITATION LONG-TERM TRAINING	84.129	STATE COLLEGES & UNIVERSITIES	61,529
	CENTERS FOR INDEPENDENT LIVING	84.132	EMPLOYMENT & ECONOMIC DEV.	996,860
	INDEPENDENT LIVING	84.169	EMPLOYMENT & ECONOMIC DEV.	484,822

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
EDUCATION (Continued)				
	OLDER BLIND INDIVIDUALS INDEPEND LIVING	84.177	EMPLOYMENT & ECONOMIC DEV.	\$ 408,101
	INFANTS & FAMILIES WITH DISABILITIES	84.181	EDUCATION	6,282,817
	SAFE & DRUG FREE SCHOOLS & COMMUNITIES	84.184	EDUCATION	507,509
	BYRD HONORS SCHOLARSHIPS	84.185	EDUCATION	731,752
	SAFE & DRUG-FREE SCHOOLS-STATE GRANTS	84.186	EDUCATION	3,934,069
	SUPPORTED EMPLOYMENT SERVICES-DISABLED	84.187	EMPLOYMENT & ECONOMIC DEV.	672,991
	BILINGUAL EDUCATION SUPPORT SERVICES	84.194	EDUCATION	2,755,910
	BILINGUAL EDUCATION-PROFESSIONAL DEVELOPMENT	84.195	STATE COLLEGES & UNIVERSITIES	26,733
	EDUCATION FOR HOMELESS CHILDREN & YOUTH	84.196	EDUCATION	911,050
	EVEN START-STATE EDUCATION AGENCIES	84.213	EDUCATION	3,002,236
	FUND FOR IMPROVEMENT OF EDUCATION	84.215	EDUCATION	3,955
	ASSISTIVE TECHNOLOGY STATE GRANTS	84.224	ADMINISTRATION	362,658
	PROJECTS WITH INDUSTRY	84.234	EMPLOYMENT & ECONOMIC DEV.	200,614
	TECH-PREP EDUCATION	84.243	STATE COLLEGES & UNIVERSITIES	1,260,700
	STATE VOC REHAB UNIT IN-SERVICE TRAINING	84.265	EMPLOYMENT & ECONOMIC DEV.	131,760
	GOALS 2000-STATE & LOCAL ED IMPROVEMENT	84.276	EDUCATION	6,685
	JOB TRAINING-PILOT & DEMO PROGRAMS	84.278	STATE COLLEGES & UNIVERSITIES	535
	EISENHOWER PROF DEVELOPMENT- STATE	84.281	EDUCATION	28,511
		84.281	STATE COLLEGES & UNIVERSITIES	111,239
	CHARTER SCHOOLS	84.282	EDUCATION	5,169,489
	TWENTY-FIRST CENTURY COMMUNITY LEARNING	84.287	EDUCATION	4,265,669
	BILINGUAL EDUCATION RESEARCH PROGRAMS	84.292	EDUCATION	90,024
	INNOVATIVE EDUCATION STRATEGIES	84.298	EDUCATION	3,230,195
	FEDERAL PERKINS LOAN - CAPITAL CONTRIBUTIONS	84.308	STATE COLLEGES & UNIVERSITIES	24
	EDUCATION TECHNOLOGY STATE GRANTS	84.318	EDUCATION	450,644
	SPECIAL EDUCATION-STATE PROGRAM IMPROVEMENT	84.323	EDUCATION	1,133,119
		84.323	STATE COLLEGES & UNIVERSITIES	152,521
	SPECIAL EDUCATION-RESEARCH & INNOVATION	84.324	EDUCATION	29,627
		84.324	STATE COLLEGES & UNIVERSITIES	1,014,564
	SPECIAL ED - PERSONNEL PREP FOR DISABLED CHILDREN	84.325	STATE COLLEGES & UNIVERSITIES	192,918
	SPECIAL EDUCATION-TECHNICAL ASSISTANCE	84.326	EDUCATION	171,322
	ADVANCED PLACEMENT INCENTIVE PROGRAM	84.330	EDUCATION	131,292

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STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
EDUCATION (Continued)				
	POST-SECONDARY EDUCATION	84.331	CORRECTIONS	\$ 119,520
	COMPREHENSIVE SCHOOL REFORM DEMONSTRATION	84.332	EDUCATION	4,774,178
	CHILD CARE ACCESS MEANS PARENTS IN SCHOOL	84.335	STATE COLLEGES & UNIVERSITIES	71,463
	TEACHER QUALITY ENHANCEMENT GRANTS	84.336	EDUCATION	325,117
		84.336	STATE COLLEGES & UNIVERSITIES	273,384
	TRIO DISSEMINATION PARTNERSHIP	84.344	STATE COLLEGES & UNIVERSITIES	67,503
	OCCUPATIONAL & EMPLOYMENT INFORMATION GRANT	84.346	STATE COLLEGES & UNIVERSITIES	101,562
	SCHOOL RENOVATION GRANTS	84.352	EDUCATION	2,950,614
	READING FIRST STATE GRANTS	84.357	EDUCATION	9,116,953
	RURAL EDUCATION	84.358	EDUCATION	238,921
	VOLUNTARY PUBLIC SCHOOL CHOICE	84.361	EDUCATION	3,066,334
	ENGLISH LANGUAGE ACQUISITION GRANTS	84.365	EDUCATION	114,282
	MATHEMATICS AND SCIENCE PARTNERSHIPS	84.366	EDUCATION	182,778
		84.366	STATE COLLEGES & UNIVERSITIES	7,367
	GRANTS FOR ENHANCED ASSESSMENT INSTRUMENTS	84.368	EDUCATION	446,963
	GRANTS FOR STATE ASSESSMENTS & RELATED ACTIVITIES	84.369	EDUCATION	5,421,319
TRIO Cluster				
	STUDENT SUPPORT SERVICES	84.042	STATE COLLEGES & UNIVERSITIES	5,841,037
	TALENT SEARCH	84.044	STATE COLLEGES & UNIVERSITIES	1,125,869
	UPWARD BOUND	84.047	STATE COLLEGES & UNIVERSITIES	3,914,602
	EDUCATIONAL OPPORTUNITY CENTERS	84.066	STATE COLLEGES & UNIVERSITIES	785,449
	TRIO_MCNAIR POST-BACCALAUREATE ACHIEVEMENT	84.217	STATE COLLEGES & UNIVERSITIES	152,528
TRIO Cluster Total:				\$ 11,819,485
ENERGY				
	STATE ENERGY CONSERVATION	81.041	COMMERCE	1,008,284
	WEATHERIZATION ASSISTANCE-LOW INCOME	81.042	COMMERCE	9,806,438
	ENERGY EFFICIENCY	81.117	COMMERCE	96,294
	STATE ENERGY PROGRAM SPECIAL PROJECTS	81.119	COMMERCE	543,961

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STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
ENVIRONMENTAL PROTECTION AGENCY				
	STATE INDOOR RADON GRANTS	66.032	HEALTH	773,139
	SURVEY STUDIES, INVESTIGATIONS DEMONSTRATION	66.034	POLLUTION CONTROL	24,198
	WATER POLLUTION CONTROL-STATE/INTERSTATE	66.419	HEALTH	82,197
		66.419	POLLUTION CONTROL	105,242
	STATE PUBLIC WATER SYSTEM SUPERVISION	66.432	HEALTH	3,185,408
	STATE UNDERGROUND WATER SOURCE PROTECTION	66.433	AGRICULTURE	22,062
	WATER QUALITY MANAGEMENT PLANNING	66.454	POLLUTION CONTROL	231,080
	NONPOINT SOURCE IMPLEMENTATION	66.460	AGRICULTURE	204,247
		66.460	POLLUTION CONTROL	7,825,720
		66.460	STATE COLLEGES & UNIVERSITIES	5,421
	WETLANDS PROTECTION	66.461	NATURAL RESOURCES	14,894
		66.461	POLLUTION CONTROL	208,557
		66.461	WATER & SOIL RESOURCES	4,189
	WATER QUALITY MANAGEMENT PLANNING	66.463	AGRICULTURE	134,716
		66.463	POLLUTION CONTROL	417,046
	WASTEWATER OPERATOR TRAINING	66.467	POLLUTION CONTROL	47,080
	DRINKING WATER STATE REVOLVING FUND	66.468	HEALTH	3,041,171
	GREAT LAKES PROGRAM	66.469	NATURAL RESOURCES	989
		66.469	POLLUTION CONTROL	178,867
	STATE GRANTS TO OPERATORS - SMALL WATER SYSTEMS	66.471	HEALTH	266,183
	BEACH MONITORING AND NOTIFICATION PROGRAM	66.472	POLLUTION CONTROL	201,546
	WATER PROTECTION GRANTS TO THE STATES	66.474	HEALTH	161,586
	ENVIRONMENTAL PROTECTION-CONSOLIDATED RESEARCH	66.500	POLLUTION CONTROL	95,364
	AIR POLLUTION CONTROL RESEARCH	66.501	POLLUTION CONTROL	103,492
	PERFORMANCE PARTNERSHIP GRANT	66.605	POLLUTION CONTROL	10,195,281
	SURVEYS, STUDIES, & INVESTIGATIONS	66.606	HEALTH	54,625
		66.606	POLLUTION CONTROL	640,517
	ENVIRONMENTAL/INFORMATION EXCHANGE NETWORK	66.608	POLLUTION CONTROL	106,210
	CONSOLIDATED PESTICIDE ENFORCEMENT	66.700	AGRICULTURE	557,350
		66.700	NATURAL RESOURCES	14,360
	CERTIFICATION OF LEAD-BASED PAINT PROFS	66.707	HEALTH	332,727

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
ENVIRONMENTAL PROTECTION AGENCY (Continued)				
	POLLUTION PREVENTION GRANTS	66.708	POLLUTION CONTROL	\$ 79,105
	SUPERFUND STATE SITE-COOP AGREEMENTS	66.802	POLLUTION CONTROL	1,414,477
	UNDERGROUND STORAGE TANK TRUST FUND	66.805	POLLUTION CONTROL	1,459,056
	SOLID WASTE MANAGEMENT ASSISTANCE	66.808	ENVIRONMENTAL ASSISTANCE	84,575
	BROWNSFIELD TRG RESEARCH & TECH ASSIST GRANTS	66.814	AGRICULTURE	80,822
	STATE & TRIBAL RESPONSE PROGRAM GRANTS	66.817	EMPLOYMENT & ECONOMIC DEV.	10,000
		66.817	POLLUTION CONTROL	591,940
	BROWNFIELD CLEANUP	66.818	EMPLOYMENT & ECONOMIC DEV.	13,916
EQUAL EMPLOYMENT OPPORTUNITY COMMISSION				
	FAIR EMPLOYMENT PRACTICES CONTRACTS	30.002	HUMAN RIGHTS	636,741
FEDERAL EMERGENCY MANAGEMENT AGENCY				
	PROJECT IMPACT GRANTS	83.551	PUBLIC SAFETY	81,080
GENERAL SERVICES ADMINISTRATION				
	ELECTION REFORM PAYMENTS	39.011	SECRETARY OF STATE	3,668,595
HEALTH & HUMAN SERVICES				
	PUBLIC HEALTH & SOCIAL SERVICES EMER FUND	93.003	HEALTH	5,154,370
	STATE RESPONSE HIV/AIDS IN MINORITY COMMUNITIES	93.006	HEALTH	90,525
	OLDER INDIVIDUALS LONG-TERM CARE	93.042	HUMAN SERVICES	196,501
	AGING-DISEASE PREVENTION & HEALTH PROMOTION	93.043	HUMAN SERVICES	371,202
	SPECIAL AGING PROGRAMS	93.048	HUMAN SERVICES	627,695
	NATIONAL FAMILY CAREGIVER SUPPORT	93.052	HUMAN SERVICES	2,308,778
	FOOD & DRUG ADMINISTRATION RESEARCH	93.103	AGRICULTURE	170,960
	MATERNAL & CHILD HEALTH-FEDERAL	93.110	HEALTH	650,273
		93.110	HUMAN SERVICES	37,562
	TUBERCULOSIS CONTROL PROGRAMS	93.116	HEALTH	745,029

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
HEALTH & HUMAN SERVICES (Continued)				
	EMERGENCY MEDICAL SERVICES FOR CHILDREN	93.127	EMERG. MEDICAL SERVICES BD	\$ 90,477
	PRIMARY CARE SERVICES	93.130	HEALTH	172,044
	INJURY PREVENTION & CONTROL RESEARCH	93.136	HEALTH	2,240,915
	ASSIST IN TRANSITION FROM HOMELESSNESS	93.150	HUMAN SERVICES	516,000
	TOXIC SUBSTANCES & DISEASE REGISTRY	93.161	HEALTH	733,589
	GRANTS FOR STATE LOAN REPAYMENTS	93.165	HEALTH	75,100
	HEALTH EDUCATION AND TRAINING CENTERS	93.189	STATE COLLEGES & UNIVERSITIES	152,286
	ALLIED HEALTH SPECIAL PROJECTS	93.191	STATE COLLEGES & UNIVERSITIES	44,247
	CHILDHOOD LEAD POISONING PREVENTION	93.197	HEALTH	722,013
	FAMILY PLANNING SERVICES	93.217	HEALTH	199,521
	CONSOLIDATED KNOWLEDGE DEVELOPMENT&APPLICATION	93.230	EDUCATION	99,925
		93.230	HUMAN SERVICES	109,008
	TRAUMATIC BRAIN INJURY	93.234	HUMAN SERVICES	101,021
	ABSTINENCE EDUCATION	93.235	HEALTH	768,822
	STATE RURAL HOSPITAL FLEXIBILITY PROGRAM	93.241	HEALTH	666,612
	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES	93.243	HUMAN SERVICES	7,915
	INNOVATIVE FOOD SAFETY PROJECTS	93.245	AGRICULTURE	42,479
	ADVANCED EDUCATION NURSING GRANT PROGRAM	93.247	STATE COLLEGES & UNIVERSITIES	31,233
	PUBLIC HEALTH TRAINING CENTERS GRANT PROGRAM	93.249	STATE COLLEGES & UNIVERSITIES	994
	UNIVERSAL NEWBORN HEARING SCREENING	93.251	HEALTH	228,051
	STATE PLANNING - HEALTH CARE ACCESS FOR UNINSURED	93.256	HEALTH	154,171
	RURAL ACCESS TO EMERGENCY DEVICES GRANT	93.259	EMERG. MEDICAL SERVICES BD	221,574
	OCCUPATIONAL SAFETY & HEALTH GRANTS	93.262	HEALTH	416,357
	CHILDHOOD IMMUNIZATION GRANTS	93.268	HEALTH	5,159,569
	ALCOHOL RESEARCH PROGRAMS	93.273	STATE COLLEGES & UNIVERSITIES	2,407
	SMALL RURAL HOSPITAL IMPROVEMENT GRANTS	93.301	HEALTH	683,192
	PROFESSIONAL NURSE TRAINEESHIPS	93.358	STATE COLLEGES & UNIVERSITIES	82,933
	NURSING-SPECIAL PROJECTS	93.359	HEALTH	208,852
		93.359	STATE COLLEGES & UNIVERSITIES	770,750
	CANCER CAUSE & PREVENTION RESEARCH	93.393	HEALTH	40,619
	CANCER CONTROL	93.399	HEALTH	430,980
	PROMOTING SAFE & STABLE FAMILIES	93.556	HUMAN SERVICES	4,689,239

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
HEALTH & HUMAN SERVICES (Continued)				
	REFUGEE & ENTRANT ASSISTANCE-STATE ADMIN	93.566	HUMAN SERVICES	\$ 8,097,358
	COMMUNITY SERVICES BLOCK GRANT	93.569	EDUCATION	1,087
		93.569	HUMAN SERVICES	7,859,497
	COMMUNITY SERVICES GRANT	93.570	EDUCATION	124
		93.570	HUMAN SERVICES	47,138
	COMMUNITY FOOD & NUTRITION	93.571	HUMAN SERVICES	44,322
	REFUGEE & ENTRANT ASSISTANCE	93.576	EDUCATION	1,205,504
		93.576	HEALTH	185,943
		93.576	HUMAN SERVICES	720,727
	REFUGEE & ENTRANT TARGETED ASSISTANCE	93.584	HUMAN SERVICES	1,402,486
	EMPOWERMENT ZONES	93.585	HUMAN SERVICES	53,160
	STATE COURT IMPROVEMENT PROGRAM	93.586	SUPREME COURT	162,416
	COMMUNITY BASED FAMILY RESOURCE & SUPPORT	93.590	HUMAN SERVICES	2,458,923
	WELFARE REFORM RESEARCH	93.595	EMPLOYMENT & ECONOMIC DEV.	549,838
	CHAFEE EDUCATION AND TRAINING VOUCHERS	93.599	HUMAN SERVICES	287,283
	HEAD START	93.600	EDUCATION	121,423
		93.600	STATE COLLEGES & UNIVERSITIES	4,983
	CHILD SUPPORT ENFORCEMENT	93.601	HUMAN SERVICES	31,832
	ADOPTION INCENTIVE PAYMENTS	93.603	HUMAN SERVICES	204,692
	DEVELOPMENTAL DISABILITIES-BASIC SUPPORT	93.630	ADMINISTRATION	933,855
	DEVELOPMENTAL DISABILITIES-NATIONAL SIGNIFICANCE	93.631	ADMINISTRATION	37,908
	CHILDREN'S JUSTICE-GRANTS TO STATES	93.643	HUMAN SERVICES	320,865
	CHILD WELFARE SERVICES-STATE GRANTS	93.645	HUMAN SERVICES	3,999,407
		93.645	STATE COLLEGES & UNIVERSITIES	3,841
	SOCIAL SERVICES RESEARCH & DEMONSTRATION	93.647	HUMAN SERVICES	199,428
	ADOPTION OPPORTUNITIES	93.652	HUMAN SERVICES	180,330
	ADOPTION ASSISTANCE	93.659	HUMAN SERVICES	19,629,918
	CHILD ABUSE & NEGLECT GRANT	93.669	HUMAN SERVICES	290,974
	FAMILY VIOLENCE PREVENTION & SERVICES	93.671	PUBLIC SAFETY	1,536,913
	INDEPENDENT LIVING	93.674	HUMAN SERVICES	2,198,646
	EMPLOYMENT OF PEOPLE WITH DISABILITIES	93.768	HUMAN SERVICES	1,844,897
	HEALTH CARE FINANCING RESEARCH	93.779	HUMAN SERVICES	929,623

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
HEALTH & HUMAN SERVICES (Continued)				
	HEALTH CAREERS OPPORTUNITY PROGRAM	93.822	STATE COLLEGES & UNIVERSITIES	\$ 36,825
	DIGESTIVE DISEASES & NUTRITION RESEARCH	93.848	HEALTH	190,519
	MICROBIOLOGY & INFECTIOUS DISEASES RESEARCH	93.856	STATE COLLEGES & UNIVERSITIES	2,689
	POPULATION RESEARCH	93.864	STATE COLLEGES & UNIVERSITIES	37,700
	RESIDENCY TRAINING IN INTERNAL MEDICINE/PEDIATRICS	93.884	STATE COLLEGES & UNIVERSITIES	13,570
	RURAL HEALTH OPERATION OFFICES	93.913	HEALTH	168,995
	HIV CARE FORMULA GRANTS	93.917	HUMAN SERVICES	4,482,551
	BREAST & CERVICAL CANCER EARLY DETECTION	93.919	HEALTH	4,132,414
	PREVENTION OF HIV & OTHER HEALTH PROBLEMS	93.938	EDUCATION	559,379
	HIV PREVENTION ACTIVITIES-HEALTH DEPT	93.940	HEALTH	3,557,320
	HIV/AIDS SURVEILLANCE	93.944	HEALTH	204,855
	CHRONIC DISEASE PREVENTION AND CONTROL	93.945	HEALTH	630,569
	IMPROVING EMS/TRAUMA CARE IN RURAL AREAS	93.952	HEALTH	61,940
	COMMUNITY MENTAL HEALTH SERVICES BLOCK	93.958	HUMAN SERVICES	6,920,858
	SPECIAL MINORITY INITIATIVES	93.960	STATE COLLEGES & UNIVERSITIES	96
	GERIATRIC EDUCATION CENTERS	93.969	STATE COLLEGES & UNIVERSITIES	30,131
	SEXUALLY TRANSMITTED DISEASES CONTROL	93.977	HEALTH	1,251,921
	PREVENTIVE MENTAL HEALTH DISASTER ASSISTANCE	93.982	HUMAN SERVICES	461,125
	STATE DIABETES CONTROL & SURVEILLANCE	93.988	HEALTH	898,806
	PREVENTIVE HEALTH & SERVICES BLOCK GRANT	93.991	HEALTH	3,445,335
		93.991	PUBLIC SAFETY	122,814
	MATERNAL & CHILD HEALTH SERVICES BLOCK	93.994	HEALTH	9,219,065
Aging Cluster				
	AGING SUPPORT SERVICES & SENIOR CENTERS	93.044	HUMAN SERVICES	7,174,940
	AGING-NUTRITION SERVICES	93.045	HUMAN SERVICES	7,361,197
	NUTRITION SERVICES INCENTIVE PROGRAM	93.053	HUMAN SERVICES	2,482,241
Aging Cluster Total:				\$ 17,018,378
HOMELAND SECURITY				
	STATE DOMESTIC PREPAREDNESS EQUIP. SUPPORT PROG.	97.004	AGRICULTURE	19,140
		97.004	PUBLIC SAFETY	12,426,886
		97.004	STATE COLLEGES & UNIVERSITIES	21,990

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STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
HOMELAND SECURITY (Continued)				
	STATE AND LOCAL DOMESTIC PREPAREDNESS SUPPORT	97.006	PUBLIC SAFETY	\$ 40,565
	HAZARDOUS MATERIALS TRAINING SUPERFUND	97.020	STATE COLLEGES & UNIVERSITIES	10,906
	COMMUNITY ASSISTANCE	97.023	NATURAL RESOURCES	145,079
	FLOOD MITIGATION ASSISTANCE	97.029	NATURAL RESOURCES	651,171
	INDIVIDUAL AND FAMILY GRANTS	97.035	PUBLIC SAFETY	10,961
	PUBLIC ASSISTANCE GRANTS	97.036	NATURAL RESOURCES	116,182
		97.036	PUBLIC SAFETY	4,815,369
	HAZARD MITIGATION GRANT	97.039	PUBLIC SAFETY	6,792,345
		97.039	STATE COLLEGES & UNIVERSITIES	58,419
	NATIONAL DAM SAFETY PROGRAM	97.041	NATURAL RESOURCES	50,705
	EMERGENCY MANAGEMENT PERFORMANCE GRANTS	97.042	PUBLIC SAFETY	2,959,588
	PRE-DISASTER MITIGATION	97.047	PUBLIC SAFETY	266,164
	STATE AND LOCAL ALL HAZARDS EMERGENCY PLANNING	97.051	PUBLIC SAFETY	1,394,003
	EMERGENCY OPERATIONS CENTERS	97.052	PUBLIC SAFETY	9,865
	CITIZEN CORPS	97.053	PUBLIC SAFETY	356,316
HOUSING & URBAN DEVELOPMENT				
	COMMUNITY DEVELOPMENT BLOCK-STATES	14.228	EMPLOYMENT & ECONOMIC DEV.	24,849,837
	EMERGENCY SHELTER GRANTS PROGRAM	14.231	HUMAN SERVICES	1,148,909
	SUPPORTIVE HOUSING PROGRAM	14.235	HUMAN SERVICES	690,569
		14.235	VETERANS HOMES	277,507
	COMMUNITY OUTREACH PARTNERSHIP CENTER PROGRAM	14.511	STATE COLLEGES & UNIVERSITIES	8,226
	COMMUNITY DEVELOPMENT WORK-STUDY	14.512	STATE COLLEGES & UNIVERSITIES	43,724
	TRIBAL COLLEGES AND UNIVERSITIES PROGRAM	14.519	STATE COLLEGES & UNIVERSITIES	14,925
	LEAD PAINT HAZARD	14.905	EMPLOYMENT & ECONOMIC DEV.	34,274
	Community Development Block Grants/Entitlement			
	COMMUNITY DEVELOPMENT BLOCK GRANTS/ENTITLEMENT	14.218	STATE COLLEGES & UNIVERSITIES	10,355
			Community Development Block	\$ 10,355
INTERIOR				
	RECREATION RESOURCE MANAGEMENT	15.225	STATE COLLEGES & UNIVERSITIES	497

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**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
INTERIOR (Continued)				
	COOP ENDANGERED SPECIES CONSERVATION	15.615	NATURAL RESOURCES	\$ 80,337
	CLEAN VESSEL ACT	15.616	NATURAL RESOURCES	10,000
	SPORTFISHING AND BOATING SAFETY ACT	15.622	NATURAL RESOURCES	248,325
	LANDOWNER INCENTIVE	15.633	NATURAL RESOURCES	206,841
	STATE WILDLIFE GRANTS	15.634	NATURAL RESOURCES	921,625
		15.634	STATE COLLEGES & UNIVERSITIES	16,485
	ASSIST STATE WATER RESOURCES RESEARCH INSTITUTES	15.805	STATE COLLEGES & UNIVERSITIES	12,649
	NATIONAL SPATIAL DATA INFRASTRUCTURE AGREEMENTS	15.809	ADMINISTRATION	99,829
	NATIONAL COOPERATIVE GEOLOGIC MAPPING	15.810	NATURAL RESOURCES	162,703
	NATIONAL CENTER FOR PRESERVATION TECH. & TRAINING	15.923	STATE COLLEGES & UNIVERSITIES	20,970
	UPPER MISSISSIPPI RIVER SYSTEM LTRMP	15.978	NATURAL RESOURCES	281,188
	INTERIOR OF FISH & WILDLIFE SERVICE (8)	15.FFA	NATURAL RESOURCES	2,033
	ENDANGERED SPECIES PLANTS (NON-TITLE 6) (8)	15.FFB	NATURAL RESOURCES	17,620
Fish & Wildlife Cluster				
	SPORT FISH RESTORATION	15.605	NATURAL RESOURCES	10,505,111
	WILDLIFE RESTORATION	15.611	NATURAL RESOURCES	6,296,877
		15.611	STATE COLLEGES & UNIVERSITIES	39,174
			Fish & Wildlife Cluster Total:	\$ 16,841,162
JUSTICE				
	NARCOTICS & DANGEROUS DRUGS TRAINING	16.004	PUBLIC SAFETY	133,361
	OFFENDER REENTRY PROGRAM	16.202	CORRECTIONS	415,325
	SEX OFFENDER MANAGEMENT DISCRETIONARY GRANT	16.203	CORRECTIONS	19,738
	JUVENILE ACCOUNTABILITY INCENTIVE BLOCK GRANT	16.523	EMPLOYMENT & ECONOMIC DEV.	991,329
		16.523	PUBLIC SAFETY	7,442,759
		16.523	SUPREME COURT	212,198
	SUPERVISED VISITATION SAFE HAVENS FOR CHILDREN	16.527	PUBLIC SAFETY	204,789
	STOP ABUSE & SEXUAL ASSAULT OF THE OLDER/DISABLED	16.528	STATE COLLEGES & UNIVERSITIES	62,076
	JUVENILE JUSTICE & DELINQUENCY PREVENTION	16.540	EMPLOYMENT & ECONOMIC DEV.	556,197
		16.540	PUBLIC SAFETY	753,810
	DEV. & DEMONSTRATING PROMISING NEW PROG.	16.541	PUBLIC SAFETY	81,944
		16.541	STATE COLLEGES & UNIVERSITIES	634,200

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
JUSTICE (Continued)				
	TITLE V- DELINQUENCY PREVENTION PROGRAM	16.548	PUBLIC SAFETY	\$ 486,089
	PART E- STATE CHALLENGE ACTIVITIES	16.549	PUBLIC SAFETY	168,010
	STATE JUSTICE STATISTICS	16.550	PUBLIC SAFETY	41,953
	NTL. INST. OF JUSTICE RES., EVAL.& DEVEL. PROG. GRANTS	16.560	PUBLIC SAFETY	47,214
	CRIME LAB IMPROVE- COMBINED OFFENDER DNA	16.564	PUBLIC SAFETY	83,950
	CRIME VICTIM ASSISTANCE	16.575	PUBLIC SAFETY	6,325,868
	CRIME VICTIM COMPENSATION	16.576	PUBLIC SAFETY	755,813
	BYRNE FORMULA GRANT	16.579	PUBLIC SAFETY	7,263,040
	BYRNE STATE/LOCAL LAW ENFORCEMENT	16.580	PUBLIC SAFETY	874,614
	VIOLENT OFFENDER INCARC-TRUTH-IN SENTENCING	16.586	CORRECTIONS	10,124,440
	VIOLENCE AGAINST WOMEN FORMULA GRANTS	16.588	PUBLIC SAFETY	3,019,955
	RURAL DOMESTIC VIOLENCE & CHILD VICTIMIZATION	16.589	PUBLIC SAFETY	1,439
	LOCAL LAW ENFORCEMENT BLOCK	16.592	PUBLIC SAFETY	986,830
	SUBSTANCE ABUSE TREAT-STATE PRISONERS	16.593	PUBLIC SAFETY	542,779
	EXECUTIVE OFFICE FOR WEED & SEED	16.595	PUBLIC SAFETY	1,663,516
	MOTOR VEHICLE THEFT PROTECTION ACT	16.597	PUBLIC SAFETY	48,635
	STATE CRIMINAL ALIEN ASSISTANCE PROGRAM	16.606	CORRECTIONS	723,778
	BULLETPROOF VEST PARTNERSHIP	16.607	CORRECTIONS	2,847
	COMM. PROSECUTION & PROJECT SAFE NEIGHBORHOODS	16.609	PUBLIC SAFETY	103,833
	PUBLIC SAFETY PARTNERSHIP & COMMUNITY POLICING	16.710	PUBLIC SAFETY	1,903,480
	POLICE CORPS	16.712	PUBLIC SAFETY	1,319,851
	ENFORCE UNDERAGE DRINKING LAWS	16.727	PUBLIC SAFETY	239,604
	NATIONAL INCIDENT BASED REPORTING SYSTEM	16.733	PUBLIC SAFETY	616,601
LABOR				
	LABOR FORCE STATISTICS	17.002	EMPLOYMENT & ECONOMIC DEV.	1,953,563
	COMPENSATION & WORKING CONDITIONS	17.005	LABOR & INDUSTRY	106,744
	SENIOR COMMUNITY SERVICE EMPLOYMENT	17.235	EMPLOYMENT & ECONOMIC DEV.	2,110,982
	TRADE ADJUSTMENT ASSISTANCE-WORKERS	17.245	EMPLOYMENT & ECONOMIC DEV.	18,116,667
	WELFARE TO WORK	17.253	EMPLOYMENT & ECONOMIC DEV.	849,319
		17.253	STATE COLLEGES & UNIVERSITIES	1,174,743

The notes (referenced in parentheses) are an integral part of these statements.

**STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004**

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
LABOR (Continued)				
	TRAINING FULFILLMENT CENTERS	17.261	STATE COLLEGES & UNIVERSITIES	\$ 381,770
	WORK INCENTIVES GRANT	17.266	EMPLOYMENT & ECONOMIC DEV.	395,300
	OCCUPATIONAL SAFETY & HEALTH-STATE PROGRAM	17.503	LABOR & INDUSTRY	3,880,795
	CONSULTATION AGREEMENTS	17.504	LABOR & INDUSTRY	997,273
	MINE HEALTH & SAFETY GRANTS	17.600	STATE COLLEGES & UNIVERSITIES	262,264
	EMPLOYMENT PROGRAMS FOR PEOPLE WITH DISABILITIES	17.720	EMPLOYMENT & ECONOMIC DEV.	248,195
NATIONAL & COMMUNITY SERVICE COMMISSION				
	DEVELOPMENT SERVICE LEARNING	94.004	EDUCATION	447,341
	LEARN & SERVE AMERICA-HIGHER EDUCATION	94.005	STATE COLLEGES & UNIVERSITIES	115,348
	AMERICORPS	94.006	NATURAL RESOURCES	41,450
		94.006	STATE COLLEGES & UNIVERSITIES	548,721
	PLANNING & PROGRAM DEVELOPMENT	94.007	STATE COLLEGES & UNIVERSITIES	136,029
NATIONAL AERONAUTICS & SPACE ADMINISTRATION				
	AEROSPACE EDUCATION SERVICES	43.001	STATE COLLEGES & UNIVERSITIES	79,034
	TECHNOLOGY TRANSFER	43.002	STATE COLLEGES & UNIVERSITIES	31,987
NATIONAL FOUNDATION ARTS & HUMANITIES				
	PROMOTION OF THE ARTS-STATE/REGIONAL	45.025	STATE ARTS BOARD	687,255
	PROMOTION OF HUMANITIES-FEDERAL/STATE PRTRNSHP	45.129	STATE COLLEGES & UNIVERSITIES	5,741
	PROMOTION OF THE HUMANITIES	45.164	STATE COLLEGES & UNIVERSITIES	368
	MUSEUM SERVICES INSTITUTE	45.301	ZOOLOGICAL BOARD	56,250
	STATE LIBRARY PROGRAM	45.310	EDUCATION	2,594,613
		45.310	STATE COLLEGES & UNIVERSITIES	29,907
NATIONAL SCIENCE FOUNDATION				
	MATHEMATICAL & PHYSICAL SCIENCES	47.049	STATE COLLEGES & UNIVERSITIES	200,470
	GEOSCIENCES	47.050	STATE COLLEGES & UNIVERSITIES	36,742

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
NATIONAL SCIENCE FOUNDATION (Continued)				
	COMPUTER AND INFORMATION SCIENCE AND ENGINEERING	47.070	STATE COLLEGES & UNIVERSITIES	\$ 13,994
	BIOLOGICAL SCIENCES	47.074	STATE COLLEGES & UNIVERSITIES	10,237
	SOCIAL, BEHAVIORAL & ECONOMIC SCIENCES	47.075	STATE COLLEGES & UNIVERSITIES	70,968
	EDUCATION & HUMAN RESOURCES	47.076	STATE COLLEGES & UNIVERSITIES	531,163
	POLAR PROGRAMS	47.078	STATE COLLEGES & UNIVERSITIES	11,069
SMALL BUSINESS ADMINISTRATION				
	SMALL BUSINESS DEVELOPMENT CENTER	59.037	EMPLOYMENT & ECONOMIC DEV.	1,291,742
		59.037	STATE COLLEGES & UNIVERSITIES	971,786
SOCIAL SECURITY ADMINISTRATION				
	SOCIAL SECURITY RESEARCH & DEMONSTRATION	96.007	EMPLOYMENT & ECONOMIC DEV.	531,574
		96.007	HUMAN SERVICES	15,683
	SOCIAL SECURITY-BENEFITS PLANNING, ASSIST, OUTREACH	96.008	EMPLOYMENT & ECONOMIC DEV.	174,773
STATE				
	EDUCATIONAL PARTNERSHIPS PROGRAM	19.424	STATE COLLEGES & UNIVERSITIES	20,399
TRANSPORTATION				
	BOATING SAFETY FINANCIAL ASSISTANCE	20.005	NATURAL RESOURCES	1,473,503
	AVIATION EDUCATION	20.100	STATE COLLEGES & UNIVERSITIES	1,803,561
		20.100	TRANSPORTATION	1,706,531
	HIGHWAYS - EMERGENCY RELIEF	20.200	PUBLIC SAFETY	93,705
	MOTOR CARRIER SAFETY	20.217	PUBLIC SAFETY	31,804
	RECREATIONAL TRAILS PROGRAM	20.219	NATURAL RESOURCES	1,332,700
	FEDERAL TRANSIT TECHNICAL STUDIES GRANTS	20.505	TRANSPORTATION	3,939,525
	PUBLIC TRANSPORTATION-NONURBANIZED AREA	20.509	TRANSPORTATION	7,153,406
	CAP ASSIST FOR ELDERLY AND DISABLED	20.513	TRANSPORTATION	1,134,623
	PIPELINE SAFETY	20.700	PUBLIC SAFETY	996,888

The notes (referenced in parentheses) are an integral part of these statements.

STATE OF MINNESOTA
NONMAJOR FEDERAL PROGRAMS
SCHEDULE OF EXPENDITURES
YEAR ENDED JUNE 30, 2004

Federal Agency	Federal Program Name	CFDA Number	State Agency	Federal Expenditures
TRANSPORTATION (Continued)				
	INTERAGENCY HAZARD MATERIALS TRAINING	20.703	PUBLIC SAFETY	\$ 277,448
		20.703	STATE COLLEGES & UNIVERSITIES	95,009
Federal Transit Cluster				
	FEDERAL TRANSIT CAPITAL IMPROVEMENT	20.500	TRANSPORTATION	727,637
	FEDERAL TRANSIT FORMULA GRANT	20.507	PUBLIC SAFETY	65,903
		20.507	TRANSPORTATION	6,751,119
			Federal Transit Cluster Total:	\$ 7,544,659
Highway Safety Cluster				
	STATE & COMMUNITY HIGHWAY SAFETY	20.600	PUBLIC SAFETY	14,133,481
	ALCOHOL TRAFFIC SAFETY/DRUNK DRIVING PREVENTION	20.601	PUBLIC SAFETY	788,563
	OCCUPANT PROTECTION	20.602	PUBLIC SAFETY	15,411
	FEDERAL HIGHWAY SAFETY DATA IMPROVEMENT	20.603	PUBLIC SAFETY	198,151
	SAFETY INCENTIVE GRANTS FOR USE OF SEATBELTS	20.604	PUBLIC SAFETY	218,713
			Highway Safety Cluster Total:	\$ 15,354,319
VETERANS AFFAIRS				
	VETERANS STATE DOMICILIARY CARE	64.014	VETERANS HOMES	2,216,153
	VETERANS STATE NURSING HOME CARE	64.015	VETERANS HOMES	10,827,044
	ALL-VOLUNTEER FORCE EDUCATION ASSISTANCE	64.124	LABOR & INDUSTRY	39,640
	STATE CEMETERY GRANTS	64.203	VETERANS AFFAIRS	379,704
			Total Nonmajor Programs:	\$558,669,286

The notes (referenced in parentheses) are an integral part of these statements.

State of Minnesota

Financial and Compliance Report on Federally Assisted Programs

Fiscal Year Ended June 30, 2004

Notes to the Schedules of Expenditures of Federal Awards

These notes provide disclosures relevant to the schedules of expenditures of federal awards presented on the preceding pages.

Note 1 – Summary of Significant Accounting Policies

Basis of Presentation

The reporting policies for fiscal year 2004 conform to the Federal Single Audit Act of 1984 as amended in 1996 and the U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The required Schedule of Expenditures of Federal Awards is presented for the state's fiscal year ended June 30, 2004. The Schedule of Expenditures of Federal Awards is divided into two sections: major and nonmajor federal programs.

The auditor uses a risk-based approach as defined in the OMB Circular A-133 to determine which federal programs are major programs. Programs expending \$20.5 million or more in federal awards are Type A programs and are considered major programs. Type B programs are programs expending less than \$20.5 million in federal awards. If the auditors assess Type A programs as low-risk, they may replace Type A programs by higher risk Type B programs as major programs.

For purposes of financial reporting, the Catalog of Federal Domestic Assistance (CFDA) number from the June 2004 basic edition catalog identifies federal programs. The schedules are presented in numeric CFDA order within each federal agency.

Financial Reporting Entity of the State of Minnesota

The financial reporting entity for the state of Minnesota includes all state departments, agencies, institutions, and organizational units, which are controlled by or dependent upon the Minnesota Legislature and/or its constitutional officers. The state, a primary government, has considered for inclusion all potential component units for which it may be financially accountable or other organizations for which the nature and significance of their relationship with the state are such that exclusion would cause the report to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be used in determining financial accountability. These criteria include the state's ability to appoint a voting majority of an organization's governing body and either the ability of the state to impose its will on that organization, or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the state.

The federal programs included in the schedule of expenditures of federal awards in this report are part of the state's primary government. The federal programs administered by discretely presented component units are not presented in this report but in single audit reports issued by these entities.

Minnesota State Colleges and Universities (MnSCU), which is part of the primary government, consists of the following education facilities:

Alexandria Technical College	Minnesota State University, Moorhead
Anoka-Ramsey Community College	Minnesota West Community & Tech. College
Anoka Technical College	Normandale Community College
Bemidji State University	North Hennepin Community College
Central Lakes College	Northland Community & Technical College
Century College	Northwest Technical College
Dakota County Technical College	Pine Technical College
Fond du Lac Tribal & Community College	Rainy River Community College
Hennepin Technical College	Ridgewater College
Hibbing Community College	Riverland Community College
Inver Hills Community College	Rochester Community & Technical College
Itasca Community College	St. Cloud State University
Lake Superior College	St. Cloud Technical College
Mesabi Range Community & Technical College	Saint Paul College
Metropolitan State University	South Central Technical College
Minneapolis Community & Technical College	Southwest Minnesota State University
Minnesota State College – Southeast Technical	Vermilion Community College
Minnesota State Community & Technical College	Winona State University
Minnesota State University, Mankato	

Basis of Accounting

The state's Comprehensive Annual Financial Report and these supplemental schedules are presented in accordance with generally accepted accounting principles, following the accrual or modified accrual basis of accounting, as appropriate for the fund structure. Most federal activity is accounted for in the Federal Fund (a major governmental fund), but several other nonmajor special revenue funds (Trunk Highway, Municipal State-Aid Street, County State-Aid Highway, Minnesota Resources, Game and Fish, and Miscellaneous Special Revenue funds) and major proprietary funds (State Colleges and Universities and Unemployment Insurance funds) include federal activity. The Minnesota Accounting and Procurement System is the primary source of financial information. Some state agencies maintain additional manual records or separate cost accounting systems to provide additional information.

Classification of Statement Information

Expenditures are presented for all federal programs and include amounts subgranted to other state or local governmental units, nongovernmental organizations or individuals. Subgrant expenditures are recognized by the primary state agency subgranting the funds, not by the state agency receiving a subgrant from the primary state agency, except for portions of Temporary Aid for Needy Families (TANF) (CFDA 93.558). TANF subgrants, which are transferred into the Social Services Block Grant (CFDA 93.667) and the Child Care Development Block Grant (CFDA 93.575), are included in those programs and not TANF.

Note 2 – Perkins and Nursing Student Loan Programs

The amount reported on the financial statements for the Perkins Loans (CFDA 84.038) for MnSCU is the administrative and collection costs. Below is a summary of the loan activity for the Perkins Loans and Nursing Loans (NSL) program (CFDA 93.364) during fiscal year 2004.

	Perkins	NSL
Loans Receivable, Beginning	\$ 35,613,139	\$ 121,046
Loan Repayments	(6,968,261)	(34,741)
Loan Cancellations	(798,718)	-
New Loans Issued	8,113,131	2,500
Loans Receivable, Ending	<u>\$ 35,959,291</u>	<u>\$ 88,805</u>

Note 3 – Federal Family Education Loan Programs

MnSCU financial records provide information on various federal higher education student loan programs for which the state does not manage the federal funds.

Under the Federal Family Education Loans (FFEL) program (CFDA 84.032), financial institutions make loans to students attending institutions of higher education. The Federal Direct Student Loan (FDSL) program (CFDA 84.268) operates similarly to the FFEL program except that the federal government, rather than a private lender, provides the loan principal to the student. MnSCU distributed the following FFEL and FDSL loans to students attending state colleges or universities during fiscal year 2004.

Federal Family Education Loans Issued:	
Federal Subsidized Stafford	\$ 133,190,917
Federal Unsubsidized Stafford	116,773,598
Federal Parent Loans for Undergraduate Students	2,264,132
Total Federal Family Education Loans	<u>\$ 252,228,647</u>
Federal Direct Student Loans	<u>\$ 47,543,640</u>

Note 4 – Oil Overcharge Funding

Grants made from oil overcharge funds are included in this report as federal expenditures for the Weatherization Assistance (CFDA 81.042) program. Loans are also administered from these funds by the departments of Finance and Commerce. A summary of the loan activity for fiscal year 2004 is shown below.

	<u>Finance</u>	<u>Commerce</u>
Loans Receivable, Beginning	\$ 358,798	\$ 734,204
Loan Repayments	(242,245)	(211,914)
New Loans Issued	-	299,545
Loans Receivable, Ending	<u>\$ 116,553</u>	<u>\$ 821,835</u>

Note 5 – Rebates

The Supplemental Food Program for Women, Infants, and Children (WIC) Program (CFDA 10.557), administered through the Minnesota Department of Health, receives cash rebates from infant formula manufacturers. The rebates are used to offset program costs and are reported as expenditure reductions. During fiscal year 2004, the state of Minnesota received a total rebate of \$23,546,176 on sales of formula to participants in the WIC program.

The Medical Assistance Program (CFDA 93.778), administered through the Minnesota Department of Human Services, receives cash rebates from drug labelers. The rebates are used to offset program costs and are reported as expenditure reductions. During fiscal year 2004, the state of Minnesota received a total rebate of \$104,481,396 on sales of drugs to participants in the Medical Assistance Program.

Note 6 – Unemployment Insurance Program

For fiscal year 2004, expenditures for the Unemployment Insurance Program (CFDA 17.225) include federal and state unemployment insurance grant expenditures as well as federal administrative expenditures. The federal unemployment insurance grant expenditures were \$117,464,312 and the state unemployment insurance grant expenditures were \$788,809,385. The federal administrative expenditures were \$46,190,839. The Unemployment Insurance Program serves workers who are unemployed through no fault of their own and are seeking reemployment. To receive benefits, claimants must be able to work, available for work, and actively seeking work. For audits and reporting under OMB Circular A-133, the U.S. Department of Labor requires that both federal and state unemployment insurance funds be considered federal awards for determining Type A (major) federal programs and for reporting expenditures of federal awards.

Note 7 – Water Quality Capitalization Grants

Water quality capitalization grants (CFDA 66.458) are used by states to create revolving funds to provide financing for construction of wastewater treatment facilities and implementation of other water quality management activities. Loans are administered from these funds by the departments of Employment and Economic Development, Agriculture, and Pollution Control. The state's loan programs are Tourism Septic Loan (TLP), Small Cities (SCDP), Agriculture Best Management Practices (AG BMP) and Clean Water Partnership (CWP). A summary of the loan activity for fiscal year 2004 is shown below.

	<u>TLP</u>	<u>SCDP</u>	<u>BMP</u>	<u>CWP</u>
Loans Receivable, Beginning	\$ 387,171	\$ 685,867	\$ 37,897,757	\$ 12,185,872
Loan Repayments	(140,538)	(159,250)	(981,685)	(1,189,583)
New Loans Issued	63,323	-	2,930,811	2,124,872
Interest Capitalized	-	-	-	86,062
Loans Receivable, Ending	<u>\$ 309,956</u>	<u>\$ 526,617</u>	<u>\$ 39,846,883</u>	<u>\$ 13,207,223</u>

Note 8 – CFDA Numbers

For certain programs, the correct CFDA number could not be determined. At times, state agencies receive federal grant funds from a federal agency with a program number instead of a CFDA number. When possible, a CFDA number was obtained for the program. Certain CFDA numbers presented are no longer operating programs. These programs resulted in funds being carried over from previous years. In other cases, the Department of Finance assigned a number. State agencies using the number assigned by the Department of Finance in fiscal year 2004 were asked to work with the federal granting agency to obtain a valid CFDA number for the grant program.

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Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2004

The Schedule of Findings and Questioned Costs consists of three sections:

- Section I: Summary of Auditor's Results
- Section II: Findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*
- Section III: Findings and Questioned Costs for federal awards.

In Section I, the results of our audit are highlighted concerning the State of Minnesota's financial statements, federal awards, and the identification of major programs audited.

In Section II, a summary schedule of financial statement audit findings lists six of our reports to state agencies in which nine financial statement audit findings were identified and required to be reported by *Government Auditing Standards*. The summary identifies our unique report number (RPT NO) for that agency in the XX-XX format (i.e. 04-36) of our separately issued reports and the finding number (FIND NO) as presented in our report. The summary also identifies whether the finding is an internal control (INT CONT) issue or a compliance issue (COMP REQ). Internal control issues identified are considered reportable (R) conditions, but not material weaknesses. Following the summary schedule are the audit findings as they appear in our separately issued reports and the Minnesota State Colleges and Universities (MnSCU) report of Kern-DeWinter-Viere (KDV). The state agencies' corrective action plans follow each finding.

In Section III, a summary schedule of federal program audit findings is presented by federal awarding agency. For each federal agency, this schedule summarizes our report findings by CFDA number, program name, and state agency. The summary identifies our unique report number (RPT NO) for that agency in the XX-XX format (i.e. 05-13) of our separately issued reports and the finding number (FIND NO) as presented in our report. The summary also identifies whether the finding is an internal control (INT CONT) issue or a compliance issue (COMP REQ). All internal control issues are reportable conditions (R) or (M) if considered a material weakness. The compliance requirements will identify the compliance requirement A through N the finding relates to. The summary also provides a short statement of the problem and its financial impact (FIN IMPACT) as procedural (P), nonquantifiable (NQ), or show a dollar amount (questioned cost). Following the summary schedule are the federal program audit findings as they appear in our separately issued reports and the Minnesota State Colleges and Universities (MnSCU) report of Kern-DeWinter-Viere (KDV). The state agencies' corrective action plans follow each finding.

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2004**

Section I:

Summary of Auditor's Results

Financial Statements

Type of independent auditor's report issued:	Unqualified	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ yes	<u> X </u> no
Reportable condition(s) identified not considered to be material weaknesses?	<u> X </u> yes	_____ no
Noncompliance material to financial statements noted?	_____ yes	<u> X </u> no

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	<u> X </u> yes	_____ no
Reportable condition(s) identified not considered to be material weaknesses?	<u> X </u> yes	_____ no

Type of auditor's report issued on compliance
for major programs:

**Qualified for Medical Assistance,
and Temporary Assistance for
Needy Families. Unqualified for
all other major programs.**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	<u> X </u> yes	_____ no
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Identification of Major Programs (See listing on next page)

Dollar threshold used to distinguish between Type A and Type B programs:	\$20.5 Million
Auditee qualified as low-risk auditee?	_____ yes <u> X </u> no

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2004**

Section I: (continued)

Listing of Major Programs Audited

<u>Federal Agency and Major Program Name</u>	<u>CFDA#</u>
Agriculture	
Food Donation Program	10.550
Special Nutrition for Women, Infants & Children	10.557
Child & Adult Care Food Program	10.558
<i>Child Nutrition Cluster</i>	
School Breakfast	10.553
National School Lunch	10.555
Special Milk for Children	10.556
Summer Food Service for Children	10.559
<i>Food Stamp Cluster</i>	
Food Stamps	10.551
State Admin. Match Grant - Food Stamps	10.561
Education	
Title 1 Grants to Local Education Agencies	84.010
Vocational Rehabilitation Grants	84.126
Reading Excellence	84.338
Improving Teacher Quality State Grants	84.367
<i>Special Education Cluster</i>	
Special Education - State Grants	84.027
Special Education - Preschool Grants	84.173
<i>Student Financial Assistance Cluster</i>	
Supplemental Education Opportunity Grant	84.007
Federal Family Education Loans	84.032
Federal Work-Study	84.033
Federal Perkins Loan	84.038
Federal Pell Grant	84.063
Federal Direct Student Loans	84.268
Nursing Student Loans	93.364

**Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Fiscal Year Ended June 30, 2004**

Section I: (continued)

Health & Human Services

Center For Disease Control & Prevention	93.283
Temp Aid for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
Foster Care	93.658
Social Services Block Grant	93.667
State Children's Insurance Program	93.767
Substance Abuse Preventive Treatment	93.959

Child Care Cluster

Child Care & Development Block Grant	93.575
Child Care Mandatory & Matching Funds	93.596

Medicaid Cluster

State Medicaid Fraud Control Units	93.775
State Health Care Providers Survey	93.777
Medical Assistance	93.778

Labor

Unemployment Insurance	17.225
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Employment Services Cluster

Employment Service	17.207
Disabled Veterans Outreach Program	17.801
Local Veterans' Employment Representative	17.804

Workforce Investment Act (WIA) Cluster

WIA – Adult Program	17.258
WIA – Youth Activities	17.259
WIA – Dislocated Workers	17.260

Social Security Administration

Disability Insurance/SSI Cluster

Social Security-Disability Insurance	96.001
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Transportation

Airport Improvement	20.106
Motor Carrier Safety Assistance Program	20.218

Highway Planning and Constructions Cluster

Highway Planning & Construction	20.205
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**MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION II
FINANCIAL STATEMENT AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2004**

STATE AGENCY	AREA	RPT NO	FIND NO	INT CONT	COMP REQ	PROBLEM
Administration	SEMA4 - Payroll Security	04-36	4	R		Excessive security clearances to some accounts.
Education	Federal School Aids	05-15	1	R		Inaccurate estimate of year-end Federal school aid liabilities.
Employment & Economic Development	Unemployment Insurance	05-17	1	R		Inadequate review of ownership changes and employer wage detail changes.
Employment & Economic Development	Unemployment Insurance	05-17	2	R		Inadequate data integrity controls over employer rate calculations.
Finance	Financial Reporting	05-19	1	R		Inadequate process for reporting capital equipment in financial statements.
Finance	Financial Reporting	05-19	2	R		Incomplete and/or inadequate budgetary information for financial statements.
Finance	Financial Reporting	05-19	3	R		Inaccurate reporting of the state's compensated absence liability.
Transportation	Financial Reporting	05-20	1	R		Inaccurate reporting of required infrastructure budgetary information.
State Colleges & Universities (MnSCU)	Financial Management	KDV	1		X	Insufficient depository insurance and collateral at some institutions.

Notes:

This summary schedule highlights financial statement audit findings presented in the Minnesota Office of the Legislative Auditor's reports to the affected state agencies. The "RPT NO" are the report numbers in the format 0X-XX, which refer to individual agency reports; and the "FIND NO" are finding numbers within those reports. The findings relate to either internal control (INT CONT) or compliance (COMP REQ). The above internal control findings are reportable conditions (R). These reports may be accessed at www.auditor.leg.state.mn.us.

The financial statements of the Minnesota State Colleges and Universities (MnSCU), a part of the state's primary government, were audited by Kern-DeWinter-Viere (KDV). The "RPT NO" for the MnSCU financial statement finding is reported in KDV-1.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2004

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State of Minnesota

Financial and Compliance Report on Federally Assisted Programs

Fiscal Year Ended June 30, 2004

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
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State Agency: Minnesota Department of Administration

Finding 04-36-4 Excessive security clearances to some accounts.

4. Some accounts with access to the database management system may have excessive security clearances.

The Department of Administration's InterTechnologies Group (InterTech) has not thoroughly evaluated the appropriateness of all accounts with extremely powerful security clearances to the SEMA4 database. Information technology professionals responsible for managing a database environment typically need special clearance or "privileges" to do their work. Most database management systems offer a wide array of privileges to help organizations give information technology professionals the precise level of security clearance that they need to do their work. Some privileges only give information technology professionals the ability to perform specific tasks. Other privileges give information technology professionals complete access to perform any task, including changing any data and even deleting the entire database.

InterTech granted the most powerful database privilege to all members of its database team. It also granted this privilege to some accounts used by software products. Of these 20 accounts, 4 belonged to people that could no longer access the state's mainframe. When questioned, the department could not justify why all of these accounts needed the most powerful privilege when many less powerful and lower risk privileges were available.

Recommendation

- *InterTech should periodically evaluate and justify the need for accounts with powerful database security privileges.*

Minnesota Department of Administration Response:

We agree. This recommendation will be fully implemented by August 31, 2004. We have implemented an annual recertification process for access privileges and revised our employee Data Practices Agreement regarding the need to access data. These actions will ensure better management and control the evaluation and justification process of accounts' database security privileges. Also, an analysis of the need for current access privileges of ITG employees has been completed and a determination made that they are appropriate.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

This analysis will be repeated annually or when new releases of operating system and database system software are installed.

Person Responsible: Jim Steinwand

Estimated Completion Date: August 31, 2004 and ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota Department of Education

Finding 05-15-1 *Inaccurate estimate of year-end Federal school aid liabilities.*

1. The department did not properly estimate the year-end financial statement accrual for federal school aid expenditures.

The department did not provide accurate information to the Department of Finance on federal program accrued liabilities for inclusion in the state's annual financial statements. Each year, the Department of Finance requests that the Department of Education provide an estimate of federal school aid reimbursements due to school districts at June 30. The department made certain errors when preparing the estimate for June 30, 2004, as discussed below.

- In its initial estimate of the federal liability, the department did not include about \$48 million it paid in July and August 2004 to reimburse schools for costs they incurred before June 30. Although paid with fiscal year 2004 funding, other accounting system coding excluded these transactions from the liability accrual determined by the state's automated financial reporting process. Department personnel were not aware that the transactions had not accrued. The department needs to review transactions recorded on the state's accounting system through the close of the state's accounting cycle and determine the amount that will be included in the state's liability accrual.
- The department mistakenly included in its liability estimate \$31 million of federal grant entitlements that were available for carryover to the next fiscal year. The financial statement liability estimate should only include amounts owed to the schools for costs incurred before the end of the fiscal year.

Adjustments made by the department and the auditors resulted in proper recording of the federal program liability in the state's financial statements.

Recommendation

- *The Department of Education needs to work with the Department of Finance to understand the financial reporting process and ensure that the department's estimate of the federal liability will result in proper presentation of the total federal liability in the state's financial statements.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Minnesota Department of Education Response:

The Department will work with the Department of Finance and fully implement the recommendations on this finding for the close of Fiscal Year 2005 so that federal liabilities are properly recorded.

Person Responsible: Chas Anderson, Deputy Commissioner

Estimated Completion Date: September 1, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota Department of Employment and Economic Development

Finding 05-17-1 *Inadequate review of ownership changes and employer wage detail changes.*

- 1. The Department of Employment and Economic Development (DEED) needs to improve scrutiny of changes to employer accounts and wage detail data, and the related impact on unemployment insurance rates and revenue recognition.**

DEED does not adequately analyze employer account information to identify employers that manipulate their unemployment insurance (CFDA #17.225) experience ratings to avoid tax liabilities. Typically, this involves shifting payroll from an entity with a higher experience rate to one with a lower rating. The federal Department of Labor warned states of a nation-wide problem where "some employers and financial advisors have found ways to manipulate state experience ratings so that these employers pay lower state unemployment compensation taxes." It required states to amend state laws to prohibit this activity and impose penalties for violations. The volume and complexity of corporate mergers, acquisitions, and restructuring make this a difficult area to ensure that all unemployment insurance revenue is being submitted.

Employer tax rate calculations, authorized in Minn. Stat. Chapter 268, are very complex. Employers are charged a tax rate based on their industry type and unemployment experience. DEED maintains computerized systems that accumulate historical data on employers. Employer accounts accumulate current employee wage detail that employers submit quarterly as well as unemployment benefits paid by the department to former employees. This key information is used to calculate each employer's tax rate and monitor that the correct tax amount is submitted.

Changes in corporate ownership and the underlying wage data that employers submit requires better department scrutiny and analysis. Minn. Stat. Section 268.051, Subd. 4 provides authority for the department to make experience rating transfers between predecessor and successor companies when there is a 25 percent or more common ownership. It also calls for the department to transfer all or part of the experience rating if a transaction was done to avoid a higher experience rating. DEED currently conducts informal reviews of corporate acquisitions, successions, and joint powers agreements to detect improper employer filing. For fiscal year 2004, DEED staff identified additional unemployment insurance revenue of \$12.8 million from several companies found in violation. However, the department did not have clear policies regarding when to recognize this revenue in the annual financial statements for the Unemployment Insurance Fund. DEED assessed the additional amounts, but has not developed procedures for reviewing employer account changes nor an on-going computerized process to alert staff to possible manipulation of wage data. A key barrier has been incomplete information regarding corporate ownership and associated business units. We noted instances where DEED's computerized system contained no address or federal identification number for some employers.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Recommendations

- *DEED should develop procedures for reviewing employer account changes and use computerized methods to analyze the propriety of large wage detail adjustments.*
- *DEED should review applicable accounting principles and develop a process to estimate revenue accruals resulting from inappropriate experience rating transfers.*

Minnesota Department of Employment and Economic Development Response:

DEED has been working on major systems and business process reengineering for the Unemployment Insurance program the past three years, with a major deployment of new technology and business processes scheduled for June, 2005. The new systems and business processes will adequately address the concerns raised in the report.

Person Responsible: Jack Weidenbach

Estimated Completion Date: June 30, 2005

We agree that DEED needs to better define the recognition of State Unemployment Tax Avoidance (SUTA) Accounts Receivable. DEED will review and determine the appropriate revenue recognition timing and estimates.

Person Responsible: John Stravos

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota Department of Employment and Economic Development

Finding 05-17-2 *Inadequate data integrity controls over employer rate calculations.*

2. DEED's data integrity controls require improvement to ensure the accuracy of employer unemployment insurance tax rate calculations.

DEED calculated employer tax rates for unemployment insurance (CFDA #17.225) without assuring the integrity of the underlying data used to derive the rates. Accurate processing and posting of benefits to employer accounts is crucial to produce accurate tax rate calculations. Although the rates were not materially misstated for most employers, errors caused both under and over charges. In addition, computer application maintenance and adjustments to modify data were not always authorized and controlled.

Unemployment insurance computerized systems are currently in a state of change with the development of a new information system planned for 2006. During the system transition period, DEED needs to mitigate key risks to ensure that inaccurate employer tax rate calculations do not adversely impact revenues. The following items discuss weaknesses in controlling the underlying data posted to an employer's account:

- **Benefit Reconciliation and Adjustments** – The current computerized system that pays unemployment benefits is not fully compatible with the system used to charge those benefits to employer accounts for tax calculation purposes. In the past, DEED reconciled activity and adjusted differences between actual benefit payments and benefits charged, prompting amended notices to employers; however, it appears that DEED now only makes adjustments when an employer complains about the adverse affect on their tax rate. For example, staff corrected two different duplicate updates of charges after an employer alerted them eight months later. We encountered two differences where DEED was unable to resolve small variances between benefits paid and charged for one employer. Since benefit data is such an important part of the unemployment tax rate calculation, a formal reconciliation would improve the reliability of key benefit data charged to employer's accounts.
- **Application and Data Maintenance** – DEED did not always control certain computer application modifications with authorized change requests and did not oversee data corrections with service request forms. In addition, users requesting the change did not receive notification that a system change or data correction was completed. Maintenance of computer application logic and data require structured management oversight and approval to avoid errors or manipulation.

Recommendation

- *DEED should improve data integrity controls by reconciling and adjusting benefit charges posted to employer accounts when different than actual benefits paid and controlling computer application and data changes.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Minnesota Department of Employment and Economic Development Response:

We agree. The issues raised in the audit have existed for at least the past 25 years due to the inability of automated systems to completely deal with discrepancies. Knowing this, one of the major goals of DEED's current reengineering effort for the Unemployment Insurance program is to link wage detail, benefit payments, and employer rate calculations in the same integrated automated system. Much of that new system will be operational in June of 2005, with the balance due in 2007.

Person Responsible: Jack Weidenbach

Estimated Completion Date: Ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota Department of Finance

Finding 05-19-1 *Inadequate process for reporting capital equipment in financial statements.*

1. The Department of Finance had some weaknesses in its process for reporting capital equipment amounts in the state's financial statements.

In fiscal year 2004, the department had several weaknesses in its procedures to verify the capital equipment amounts reported by state agencies. These deficiencies resulted in inaccurate or incomplete preliminary capital equipment amounts to be included in the state's financial statements. We identified the following weaknesses related to the department's monitoring process and reporting of equipment information.

- The department did not provide state agencies with accurate and complete equipment acquisition data for six months of the fiscal year. Twice a year, the department extracts information from its capital asset database and asks the agencies to verify the accuracy of that information. The department did not identify an error in its information that indicated many agencies did not purchase any equipment during the period January 1 through June 30, 2004, when, in fact, they did. After we brought the error to the department's attention, it conducted additional analysis and made \$3.7 million in financial statement adjustments.
- The department did not follow its procedures for tracking which state agencies it expected to receive equipment verifications from. As a result, staff could not explain why the department had not received verifications from some agencies. The risk of incomplete or inaccurate reporting of equipment acquisitions increases when the department does not use its tracking system to ensure it has received verifications from agencies with material equipment acquisitions during the year.
- The department did not establish base level expectations or perform sufficient follow-up procedures when they received reports from state agencies, including some reports that contained errors or incomplete information. Some agencies provide information directly to the department, such as the Department of Human Services (DHS) and the Minnesota Department of Transportation (MnDOT). Finance did not ensure that the information DHS provided agreed with Finance's capital equipment records. DHS staff told us that its report has not historically included equipment purchases made during the last two months of the fiscal year. Those purchases would be reported as adjustments in the subsequent year's financial statements. The department also did not sufficiently document its decisions on some questionable information provided by other departments. The Department of Education, for example, informed the department that they did not verify equipment balances for fiscal year 2004. The department worked with Education and ultimately concluded the differences were immaterial, but did not sufficiently document the basis for its decision.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Accounting and financial reporting for equipment purchases is very detailed and complex work. The accounting is decentralized, individual purchases may fall below the state's \$30,000 capitalization threshold, agencies purchase multiple quantities of items, and purchases may have multiple components. As a result, the department relies on other state agencies to verify complete and accurate reporting information related to equipment additions and deletions. It is ultimately the responsibility of the Department of Finance, however, to ensure proper financial reporting of this activity.

Recommendations

- *The Department of Finance should continue to work with state agencies to ensure that they provide accurate and timely capital equipment information for the state's financial statements.*
- *The Department of Finance should improve its monitoring and reporting procedures for capital equipment. The department should consider additional analytical tests and reconciliations of information submitted by state agencies and follow up on unusual situations or variances.*

Minnesota Department of Finance Response:

The Department of Finance staff will continue to work with state agencies to obtain accurate and timely capital equipment information. The department has revised the detailed instructions to state agencies to ensure agencies have a clear understanding of the necessary information needed to accurately reflect capital equipment in the financial statements.

The Department of Finance will ensure proper implementation of its review procedures during the financial reporting process to help assure that information submitted by agencies is reasonable. Significant unusual variances will be investigated as part of this procedure.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Estimated Completion Date: October 1, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota Department of Finance

Finding 05-19-2 *Incomplete and/or inadequate budgetary information for financial statements.*

2. The Department of Finance did not provide complete and accurate preliminary budgetary information for the state's financial statements.

The department revised budgetary financial statements and schedules numerous times throughout the financial reporting process. Although we ultimately reached agreement with the department's final amounts for the budgetary financial statements, numerous adjustments and changes to the original information supplied by the Department of Finance were necessary.

Generally accepted accounting principles (GAAP) require that governments publish financial statements that present a comparison of budgeted revenues, expenditures, and changes in fund balance to actual amounts. In addition, if governments budget on a basis other than GAAP, a reconciliation of the two statements must be presented. Our audit identified many errors and omissions that required adjustments to the department's preliminary budgetary financial statements. These errors and omissions resulted from the following control weaknesses:

- The general accounting unit prepares budgetary information that is used by the Budget Division and also for preparing the annual budgetary financial statements. The department did not adequately analyze certain types of financial activity for the General Fund. As a result, the department made a \$12.7 million fund balance adjustment to the General Fund Budgetary Statement.
- The department did not have a consistent method to account for certain financial activity, primarily fund structure changes, in the budgetary and GAAP financial statements. The general accounting unit prepared the budgetary statements and the financial reporting unit prepared the GAAP financial statements. Three budgetary fund financial statements had to be adjusted for changes in fund structure. Also, one fund's GAAP financial statements had not properly reported a fund level transfer of \$4.6 million.
- The department did not use a consistent method to identify and classify accrual and transfer differences for the budget to GAAP financial statement reconciliation. The department made changes to 9 of the 11 special revenue funds included on this reconciliation. Actual revenues, transfers-in, expenditures, encumbrances, and transfers-out on the budgetary basis do not equal those on the GAAP basis financial statements. To report these variances, the department prepares a reconciliation schedule. The reconciliation identifies variances by transaction categories.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

- The department did not receive sufficient information from the Minnesota Department of Transportation (MnDOT) to support MnDOT's budgetary financial statement for the Trunk Highway Fund. MnDOT uses subsystem information rather than the state's accounting system to prepare the budgetary financial statements. This created problems for Finance to support the Trunk Highway Fund's budgetary amounts.

A more effective use of analytical review procedures, including a comparison of last year's financial statements to the current year's preliminary financial statements and other sources of information, could help the department identify these types of errors and omissions.

Recommendations

- *The Department of Finance should review its procedures for reporting budgetary information to ensure that:*
 - *complete and accurate information is provided in a timely manner,*
 - and*
 - *budgetary information reconciles to financial statements prepared in accordance with generally accepted accounting principles.*
- *Finance should work with MnDOT to ensure that MnDOT reconciles its budgetary financial statements to the budgetary information in the state's accounting system.*

Minnesota Department of Finance Response:

The Department of Finance is in the process of consolidating the development of more detailed documentation of the differences between the budgetary and the GAAP financial statements. This will facilitate a more timely preparation and reconciliation of the differences between the budgetary and GAAP financial statements. We will continue to monitor adjustments made to the financial statements prepared in accordance with generally accepted accounting principles to determine the impact to the budgetary financial statements.

For fund structure changes, the department will ensure consistent application of these changes in both the budgetary and GAAP financial statements. In addition, the department has developed an automated system to capture fund level transfers during the close period.

The department will continue to work with the Minnesota Department of Transportation (Mn/DOT) to ensure that Mn/DOT provides adequate support of the numbers included in its budgetary financial statements.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Estimated Completion Date: October 31, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota Department of Finance

Finding 05-19-3 *Inaccurate reporting of the state's compensated absence liability.*

3. The department did not accurately measure and report the state's compensated absences liability for state workers.

The Department of Finance incorrectly estimated the state employee accumulated leave liability to be reported in the state's basic financial statements. Generally accepted accounting principles require governments to report an estimated liability for accumulated vacation earned to date and other termination benefits payable to employees. As discussed below, we made various audit adjustments to correct for data and procedural errors in the calculation.

- When determining the accumulated vacation hours earned by state employees at June 30, 2004, the department omitted leave earned by 277 unclassified employees with rights to a classified position. An adjustment of \$1.7 million was necessary to avoid an understatement of the financial liability.
- The liability for compensatory time was miscalculated. The computer program used an incorrect social security rate in the liability calculation. This resulted in a \$2.8 million adjustment to reduce the compensated absences liability.
- The current portion of the leave liability was not accurately determined. The department estimated the current liability by using the average termination payouts over the past three years. However, they omitted severance payments made to medical plan accounts when determining applicable percentages. A reclassification of approximately \$4.3 million was necessary to avoid understating the current portion of the liability and overstating the long term portion.

Recommendation

- *The Department of Finance should review its process for determining the compensated absence liability to ensure that accurate and complete balances and rates are used in the calculation.*

Minnesota Department of Finance Response:

The Department of Finance has implemented programming changes to include unclassified employees with rights to a classified position as well as use of the appropriate social security rate in the calculation of its compensated absences liability. The department has also implemented procedures to search for new earning codes for salaries and fringe benefits for purposes of calculating the reclassification of the current portion of the compensated absences liability.

Person Responsible: Barb Ruckheim, Financial Reporting Director

Estimated Completion Date: Complete

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota Department of Transportation

Finding 05-20-1 *Inaccurate reporting of required infrastructure budgetary information.*

- 1. The department was unable to provide the appropriate type of required infrastructure budgetary information to the Department of Finance for inclusion in the state's annual financial statements.**

The Department of Transportation (MnDOT) did not identify annual budgeted amounts for infrastructure preservation and maintenance measured on the same basis as actual costs. Instead, the department used its State Transportation Investment Plans (STIP) to provide the estimated budgetary amounts. These amounts represented budgeted expenditures for construction projects starting in the current year and expected to be completed over future years. The actual amounts, on the other hand, represented current year costs for construction projects that MnDOT may have budgeted for in prior years.

The Governmental Accounting Standards Board (GASB) Statement 34 requires entities using the modified approach for reporting infrastructure to present a five-year comparison between the estimated annual amount to maintain and preserve their infrastructure assets and the actual amounts expensed during each of these five years. This information is presented in the Required Supplemental Information (RSI) section of the state's annual financial report. The Department of Finance and MnDOT acknowledged that the budgetary amounts did not provide a meaningful comparison to the actual amounts and added the following explanation to the RSI:

Mn/DOT projects may span several years. Project costs are budgeted in the first year but spent throughout the life of the project. This process does not allow an accurate comparison of the amounts budgeted and spent within the fiscal year due to funding carryover between two or more fiscal years. Therefore, this timing difference does not allow a true comparison of amounts budgeted and spent within a given year.

However, by not providing an accurate comparison of the budget to actual amounts, the data in the RSI does not comply with the intent of the GASB requirement.

Recommendation

- *The Department of Transportation should work with the Department of Finance to develop budgetary information that is measured on the same basis as actual expenditures for the preservation and maintenance of infrastructure assets.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

Minnesota Department of Transportation Response:

This is a national issue that may not lend itself to quick resolution. Mn/DOT's efforts may involve researching other states' practices.

Persons Responsible: Kevin Z. Gray, Finance and Administration Division Director
Scott Peterson, Finance Office Director
Department of Finance Staff

Resolution Date: March 2005 begin resolution actions

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section II: Financial Statement Audit Findings - Continued

State Agency: Minnesota State Colleges and Universities

Finding KDV-1 *Insufficient depository insurance and collateral at some institutions.*

Collateralization of Deposits

Observation: We noted instances during fiscal year 2004 where MnSCU's cash deposits and investments were not collateralized at levels required by Minnesota Statutes. There has been significant improvement at the system level in the process for requiring and verifying collateral throughout the year. Winona State University, however, continues to have a substantial balance of under collateralized deposits and investments. Deposits were under collateralized by \$7.7 million at certain times of the year.

Recommendation: We recommend that MnSCU continue to implement procedures to maintain collateral levels above the requirements of Minnesota Statutes at all campuses.

Minnesota State Colleges and Universities Response:

This area will continue to receive regular monitoring to assure compliance with statutes.

Person Responsible: Darrell Krueger, President of Winona State University

Estimated Completion Date: Complete

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MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION III
FEDERAL PROGRAM AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2004

CFDA NO	PROGRAM NAME	STATE AGENCY	RPT NO	FIND NO	INT CONT	COMP REQ	PROBLEM	FIN IMPACT
U.S. Department of Agriculture								
10.551	Food Stamps	Human Services	05-13	1	R		Lax SSN validation follow-up controls.	NQ
10.551	Food Stamps	Human Services	05-13	5	R		Inappropriate security clearance to change IEVS data.	NQ
10.551	Food Stamps	Human Services	05-13	6	R		Ineffective IEVS data processing controls.	NQ
10.551	Food Stamps	Human Services - Anoka County	05-18	A-1	R	E	No specific monitoring of FIAT override transactions.	P
10.551	Food Stamps	Human Services - Anoka County	05-18	A-2	R	E	Inadequate monitoring of employee access to MAXIS.	P
10.551	Food Stamps	Human Services - Dakota County	05-18	D-1	R	E	Inadequate monitoring of FIAT override transactions.	P
10.551	Food Stamps	Human Services - Hennepin County	05-18	H-1	R	E	No monitoring of FIAT override transactions.	P
10.551	Food Stamps	Human Services - Ramsey County	05-18	R-1	R	E	No monitoring of FIAT override transactions.	P
10.551	Food Stamps	Human Services - Saint Louis County	05-18	S-1	R	E	No monitoring of FIAT override transactions.	P
10.557	Special Nutrition for Women, Infants & Children	Health	05-16	1	R	B	Salary allocations not sufficiently documented.	NQ
10.561	Food Stamp Administration	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
U.S. Department of Education								
84.027	Special Education Grants to States	Education	04-42	1	R	A	Grant not openly awarded.	P
84.027	Special Education Grants to States	Education	04-42	2	R	A	Inappropriate salary and rent charged to grant.	\$41,649
84.027	Special Education Grants to States	Education	04-42	3	R	A	Inappropriate consultant costs charged to grant.	\$7,000
84.063	Federal Pell Grant	State Colleges and Universities (MnSCU)	KDV-04	3	R	L	Student payment data not reported in a timely manner.	P
84.126	Vocational Rehabilitation	Employment and Economic Development	05-17	4	R	I	Lack of written professional services contracts.	P
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	KDV-04	1	R	E	Omitted items in published satisfactory academic progress policies.	P
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	KDV-04	2	R	N	Changes in student status not timely reported.	P
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	KDV-04	4	R	N	Inadequate policies and procedures for verifying applicant information.	P
Various	Financial Aid Cluster	St. Cloud State University	KDV-04	5	N		Untimely calculations of return of Title IV funds.	\$10,849
Various	Financial Aid Cluster	Minnesota State University, Mankato	KDV-04	6	R	E	Inadequate monitoring of satisfactory academic progress.	\$587,905
Various	Financial Aid Cluster	State Colleges and Universities (MnSCU)	KDV-04	7	R	E	Student awards exceeded program limits.	\$12,551
Various	Financial Aid Cluster	Anoka Technical College	KDV-04	9	R	E	Omitted items in published satisfactory academic progress policies.	\$41,728
Various	Financial Aid Cluster	Anoka Technical College	KDV-04	9	R	N	Inconsistent calculation of return of Title IV funds.	\$22,732
U.S. Department of Health & Human Services								
93.283	CDC - Investigations and Technical Assistance	Health	05-16	1	R	B	Salary allocations not sufficiently documented.	NQ
93.283	CDC - Investigations and Technical Assistance	Health	05-16	3	R	F	Inadequate management of fixed assets.	P
93.558	Temporary Assistance to Needy Families	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
93.558	Temporary Assistance to Needy Families	Human Services	05-13	1	M		Lax SSN validation follow-up controls.	NQ
93.558	Temporary Assistance to Needy Families	Human Services	05-13	2	M	E,N	IEVS not used to validate eligibility for many program recipients.	NQ
93.558	Temporary Assistance to Needy Families	Human Services	05-13	4	M	E,N	IEVS discrepancies not promptly resolved.	NQ
93.558	Temporary Assistance to Needy Families	Human Services	05-13	5	M		Inappropriate security clearance to change IEVS data.	NQ
93.558	Temporary Assistance to Needy Families	Human Services	05-13	6	M		Ineffective IEVS data processing controls.	NQ
93.558	Temporary Assistance to Needy Families	Human Services	05-13	7	M	E,N	Insufficient audit trail to prove IEVS matches were completed.	NQ
93.558	Temporary Assistance to Needy Families	Human Services - Anoka County	05-18	A-1	M	E	No specific monitoring of FIAT override transactions.	P
93.558	Temporary Assistance to Needy Families	Human Services - Anoka County	05-18	A-2	R	E	Inadequate monitoring of employee access to MAXIS.	P
93.558	Temporary Assistance to Needy Families	Human Services - Dakota County	05-18	D-1	M	E	Inadequate monitoring of FIAT override transactions.	P
93.558	Temporary Assistance to Needy Families	Human Services - Hennepin County	05-18	H-1	M	E	No monitoring of FIAT override transactions.	P
93.558	Temporary Assistance to Needy Families	Human Services - Hennepin County	05-18	H-2	M	E,N	Untimely resolution of discrepancies identified by IEVS.	NQ
93.558	Temporary Assistance to Needy Families	Human Services - Ramsey County	05-18	R-1	M	E	No monitoring of FIAT override transactions.	P
93.558	Temporary Assistance to Needy Families	Human Services - Ramsey County	05-18	R-2	M	E,N	Untimely resolution of discrepancies identified by IEVS.	NQ
93.558	Temporary Assistance to Needy Families	Human Services - Saint Louis County	05-18	S-1	M	E	No monitoring of FIAT override transactions.	P
93.558	Temporary Assistance to Needy Families	Human Services - Saint Louis County	05-18	S-2	R	E	Insufficient controls over setting up vendors for cash benefit payments.	P
93.563	Child Support Enforcement	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
93.568	Low Income Home Energy Assistance	Commerce	05-14	2	M		Inadequate resolution of subrecipient audit issues.	P
93.575	Child Care and Development Block	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
93.575	Child Care and Development Block	Human Services	05-18	2	R	C	Advances paid to subrecipients.	P
93.658	Foster Care - Title IV-E	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ

MINNESOTA OFFICE OF THE LEGISLATIVE AUDITOR
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SECTION III
FEDERAL PROGRAM AUDIT FINDINGS
FISCAL YEAR ENDED JUNE 30, 2004

CFDA NO	PROGRAM NAME	STATE AGENCY	RPT NO	FIND NO	INT CONT	COMP REQ	PROBLEM	FIN IMPACT
U.S. Department of Health & Human Services (cont.)								
93.667	Social Services Block	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
93.767	State Children's Health Insurance Program	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
93.767	State Children's Health Insurance Program	Human Services	05-18	4	R	L	CMS-64 report not accurate and timely.	P
93.767	State Children's Health Insurance Program	Human Services	05-18	5	R	E	Inadequate documentation for certain eligibility criteria.	NQ
93.777	State Health Care Providers' Survey	Human Services	05-18	4	R	L	CMS-64 report not accurate and timely.	P
93.778	Medical Assistance	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
93.778	Medical Assistance	Human Services	05-18	4	R	L	CMS-64 report not accurate and timely.	P
93.778	Medical Assistance	Human Services	05-13	1	M		Lax SSN validation follow-up controls.	NQ
93.778	Medical Assistance	Human Services	05-13	2	M	E	IEVS not used to validate eligibility for many program recipients.	NQ
93.778	Medical Assistance	Human Services	05-13	3	M	E	Unclear how IEVS discrepancy data impacts eligibility for prior periods.	NQ
93.778	Medical Assistance	Human Services	05-13	4	M	E	IEVS discrepancies not promptly resolved.	NQ
93.778	Medical Assistance	Human Services	05-13	5	M		Inappropriate security clearance to change IEVS data.	NQ
93.778	Medical Assistance	Human Services	05-13	6	M		Ineffective IEVS data processing controls.	NQ
93.778	Medical Assistance	Human Services	05-13	7	M	E	Insufficient audit trail to prove IEVS matches were completed.	NQ
93.778	Medical Assistance	Human Services - Anoka County	05-18	A-1	M	E	No specific monitoring of FIAT override transactions.	P
93.778	Medical Assistance	Human Services - Dakota County	05-18	D-1	M	E	Inadequate monitoring of FIAT override transactions.	P
93.778	Medical Assistance	Human Services - Hennepin County	05-18	H-1	M	E	No monitoring of FIAT override transactions.	P
93.778	Medical Assistance	Human Services - Hennepin County	05-18	H-2	M	E	Untimely resolution of discrepancies identified by IEVS.	NQ
93.778	Medical Assistance	Human Services - Ramsey County	05-18	R-1	M	E	No monitoring of FIAT override transactions.	P
93.778	Medical Assistance	Human Services - Ramsey County	05-18	R-2	M	E	Untimely resolution of discrepancies identified by IEVS.	NQ
93.778	Medical Assistance	Human Services - Saint Louis County	05-18	S-1	M	E	No monitoring of FIAT override transactions.	P
93.959	Substance Abuse Prevention and Treatment Block	Human Services	05-18	1	R	B	Salary allocations not sufficiently documented.	NQ
93.959	Substance Abuse Prevention and Treatment Block	Human Services	05-18	3		B	Overpayments made to some providers.	NQ
U.S. Department of Labor								
17.207	Employment Services	Employment & Economic Development	05-17	3	R		Inaccurate determination of federal program expenditures.	P
17.207	Employment Services	Employment & Economic Development	05-17	4	R	I	Lack of contractor suspension and debarment verification.	P
17.225	Unemployment Insurance	Employment & Economic Development	05-17	1	R		Inadequate review of ownership changes, employer wage detail changes.	P
17.225	Unemployment Insurance	Employment & Economic Development	05-17	2	R		Inadequate data integrity controls over employer rate calculations.	P
17.260	Workforce Investment Act-Dislocated Worker	Employment & Economic Development	05-17	3	R		Inaccurate determination of federal program expenditures.	P
17.801	Disabled Veterans Outreach Program	Employment & Economic Development	05-17	4	R	I	Lack of contractor suspension and debarment verification.	P
17.804	Local Veterans' Employment Representative	Employment & Economic Development	05-17	4	R	I	Lack of contractor suspension and debarment verification.	P
U.S. Department of State								
19.424	Educational Partnerships Program	St. Cloud State University	KDV-04	8	R	B	Ineligible costs charged to the program.	\$54,084
U.S. Department of Transportation								
20.205	Highway Planning & Construction	Transportation	05-20	2	R	A	Project oversight procedures need improvement.	NQ

Notes:

This summary schedule highlights federal program audit findings presented in the Minnesota Office of the Legislative Auditor's reports to the affected state agencies.
The "RPT NO" are the report numbers in the format 0X-XX, which refer to individual agency reports; and the "FIND NO" are finding numbers within those reports.
The finding identifies whether the internal control (INT CONT) is a Material (M) weakness or a Reportable (R) condition and or compliance (COMP REQ) requirement addressed (A-N).
These reports may be accessed at www.auditor.leg.state.mn.us.

The "RPT NO" for KDV federal program findings are reported in KDV-04; and the "FIND NO" are finding numbers within KDV's report.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2004

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Federal Program Audit Findings

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State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2004

Minnesota Office of Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings

Report 04-42

State Agency: Minnesota Department of Education

Federal Agency: U.S. Department of Education

CFDA Number/Program Name:

84.027 Special Education Grants to States

Questioned Costs: Cannot be determined

Finding 04-42-1 *Grant not openly awarded.*

1. The Department of Education did not use a competitive process when awarding the Project LEAD grant.

Department of Education personnel approached Metro ECSU about administering Project LEAD and hiring a department employee as the project director. The Department of Education awarded the Project LEAD grant to Metro ECSU without advertising the availability of grant funds or soliciting applications from other organizations. The department may have used the grant to Metro ECSU as a way to accomplish project objectives in a less restrictive environment, rather than administer it through the department, where it would be subject to state policies and procedures.

Metro ECSU then hired a Department of Education employee as the director of Project LEAD. The employee took a leave of absence from the department. While at the department, this individual had worked on the conceptual design of Project LEAD and had expressed to others in the department an interest in continuing his work on the project. Metro ECSU did not search for or interview any other candidates for the position. Metro ECSU's former executive director interviewed the department employee and said he offered him the position based on his qualifications; stating that he believed conducting a broader search would not have yielded a better candidate. The executive director also said he followed Metro ECSU's hiring practices and that he did not feel pressure from the department to hire this employee.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

As administrators of federal and state funds, the department had the responsibility to ensure fair and equitable access to grant opportunities. The Department of Education's policies and procedures for grant contracts direct employees to prepare a notice of the project and the availability of funds and to coordinate an application process. Once Metro ECSU was awarded the funding, the grant administration should have been in its control, without direct involvement of the department.

Recommendation

- *The department should award state and federal grants using a competitive process to ensure fair and equitable access to grant funds. The department should document circumstances that preclude the use of a competitive grant award process.*

Minnesota Department of Education Response:

Recommendation 1-1: Procedures have been clarified to require all non-formula grant programs to be administered competitively. Sole source programs will have to follow the same process as identified for professional technical contracts with approval given by division director and assistant commissioner. Explanation will have to include all information to justify that there is no other vendor that can provide the service. The contract section of the administrative services division at MDE will also require copies of all public notices of requests for proposal and information regarding vendor responses to be submitted with grant agreements to assure compliance. Grant agreements will not be executed without the documentation of public notice and competition or approved sole source explanations.

We will implement the recommendations of the report and make sure that we safeguard the public trust in the use and distribution of public funds.

Person Responsible: Tammy McGlone

Estimated Completion Date: Complete

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 04-42

State Agency: Minnesota Department of Education

Federal Agency: U.S. Department of Education

CFDA Number/Program Name:

84.027 Special Education Grants to States

Questioned Costs: \$41,649

Finding 04-42-2 *Inappropriate salary and rent charged to grant.*

2. Department of Education employees were inappropriately involved in Metro ECSU management decisions.

The Department of Education inappropriately influenced management decisions made by Metro ECSU. The former executive director of Metro ECSU told us he complied with the department's requests without consulting the organization's executive committee, sometimes subjecting the organization to unnecessary financial risks.

- Metro ECSU's former executive director told us that a Department of Education supervisor asked Metro ECSU to hire a person that the department could not hire because of hiring restrictions. Metro ECSU employed this person from October 2001 through September 2002. The employee was responsible for coordinating the activities of the federal Self-Improvement Grant. The employee had office space at Metro ECSU, but often worked at the department. No one at Metro ECSU supervised her work. She reported to the Department of Education supervisor, who is now retired. When we spoke with him, he did not recall how she was hired by Metro ECSU or the nature of her duties or responsibilities there. Metro ECSU charged Project LEAD \$25,110 for the employee's compensation although she did not work on the project. In July 2002, the department and Metro ECSU entered into an interagency agreement that allowed Metro ECSU to bill the department for the employee's compensation. The department paid the subsequent interagency invoices from the appropriate federal funding source. The arrangement ended in September 2002, when the department hired the person as its own employee to do similar work.
- Metro ECSU's former executive director stated that a Department of Education employee, who had previously worked at Metro ECSU, asked him to lease additional space in its office building. The department subleased the space for department purposes for the period January 1, 2001, through July 31, 2003. In fiscal year 2002, Metro ECSU inappropriately charged Project LEAD \$16,539 for costs associated with the additional space. The department cancelled its sublease on October 31, 2002, leaving Metro ECSU financially responsible for the additional office space.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

- The department did not pay the registration fees for employees that attended the Project LEAD's Special Education Leaders Fellowship training. Instead, the grant funded the cost of their attendance. The leadership training series included four sessions consisting of four days each. On average, there were 15 participants at each training session, of which 4 to 5 were department personnel, and the rest were school district employees. The registration fees ranged from \$500 to \$850 per session. The registration fees included the cost of meals and lodging as well as the facility and speaker fees. The project director and certain department supervisors supported the inclusion of department staff in the training to foster better relationships between department and school district special education personnel. Metro ECSU and Department of Education staff said there was confusion about whether department employees had to pay the registration fees or whether grant funds could be used. The director of Project LEAD stated the department provided different directions each year as to how Metro ECSU should handle the department employees' registration fees. Although the department may have been able to use the same federal program that funded Project LEAD, these costs should have been paid through the department and subject to state policies and procedures.
- In the summer of 2003, the department told Metro ECSU that it could not hold its Project LEAD training conferences at resorts because of department restrictions. Metro ECSU had already made commitments to reserve conference space at resorts and lost nearly \$20,000 in cancellation fees when it cancelled the conferences. Metro ECSU's former executive director said department personnel had indicated Metro ECSU would not be reimbursed for costs incurred at resorts. Metro ECSU was not subject to department conference restrictions and should have been able to use its own judgment to determine conference locations.

Metro ECSU may have accommodated these requests to maintain a good relationship with the Department of Education, from which it received the majority of its funding.

Recommendations

- *The department should limit its involvement in a grantee's operations to oversight of the grant agreement.*
- *The department should work with Metro ECSU to resolve the \$25,110 of inappropriate salary charges and the \$16,539 of inappropriate rent charges. The department needs to properly report project charges and resolve any federal funding discrepancies that these inaccuracies created.*
- *The department should not use the grant recipient's funding to pay for state employee training.*
- *The department should outline any grant-related restrictions or requirements in the grant contracts.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

- *CCCMetro ECSU's Representative Assembly should establish proper oversight roles for the executive committee and the executive director.*

Minnesota Department of Education Response:

Recommendation 2-1: MDE will not involve itself in operations of a grantee's organization beyond oversight of grants. Those oversight responsibilities will be defined in each grant agreement. The division directors and assistant commissioners will be responsible to assure that activities of staff administering grants in their divisions are appropriate to each circumstance.

Recommendation 2-2: The director of administrative services division will work with Metro ECSU to repay MDE the \$41,649.00 in costs that were inappropriately charged by Metro ECSU to the project lead grant and will direct staff in the Federal Financial Reporting section to properly adjust expenditure reports with the U.S. Department of Education for those grant periods.

Recommendation 2-3: The Department policy indicates employees will not receive services that are to their personal benefit from grantees, and this policy will be fully enforced.

Recommendation 2-4: The contract section of administrative services division will ensure all grant documents reviewed identify restrictions or requirements for grants processed.

Recommendations 2-5 and 3-1 through 3-3 apply to the operations of the Metro ECSU and response on implementation of these recommendations should come from them. However, MDE is in the process of developing standards for financial accountability to be included in grant documents for all grantees. MDE's administrative services contracts and internal auditing sections are working together as a result of a previous audit finding with Metro ECSU to identify criteria for grantees to make certain they have the ability to perform their fiduciary responsibilities with regard to the protection of public funds. All non-formula grant recipients of the MDE will have the same responsibilities.

We will implement the recommendations of the report and make sure that we safeguard the public trust in the use and distribution of public funds.

Person Responsible: Tammy McGlone

Estimated Completion Date: March 31, 2005

Minnesota Metropolitan Educational Cooperative Service Unit Response:

This is in response to Key Finding #2 regarding \$25,110 for inappropriate salary charges and \$16,539 for inappropriate rent charges. These decisions were made solely by the Executive Director of Metro ECSU after negotiations between representatives of the Department who presented themselves as, and had evidence of, being authorized to conduct such negotiations on behalf of the Department, and the Executive Director of Metro ECSU (Tom Baldwin, former

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Executive Director). The primary concern of these negotiations from Metro ECSU's point was assuring the organization would not be at financial risk. In both matters the Executive Director was assured this concern would be met. The Executive Director of Metro ECSU did not feel responsible for ascertaining the Departments' source of funding. These would be matters of Department protocol that would rightfully be the responsibility of those representing the Department. Once both sides had concluded negotiations, Metro ECSU followed the direction of Department staff in determining which account codes would be liable for the negotiated rent and salary. As stated, the source of the funds were a matter of concern for the Department (the purchaser), not Metro ECSU (the vendor.)

These negotiations with the Department were done in good faith. Metro ECSU and the Department have had a good working relationship for many years. The Executive Director of Metro ECSU had no basis to believe these requests and negotiations with the Department were inaccurate or inappropriate. Therefore the Executive Director of Metro ECSU does not believe Metro ECSU should be held fiscally responsible for the charges in this finding.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 04-42

State Agency: Minnesota Department of Education

Federal Agency: U.S. Department of Education

CFDA Number/Program Name:

84.027 Special Education Grants to States

Questioned Costs: \$7,000

Finding 04-42-3 *Inappropriate consultant costs charged to grant.*

3. Metro ECSU did not ensure fair and equitable access to contracting opportunities and did not adequately administer consulting services.

During fiscal years 2001 through 2004, Metro ECSU charged \$238,349 to Project LEAD for consultant services, which was an approved budget line item for the grant. It was unclear how the project director selected consultants. As a recipient of public funds, Metro ECSU had the responsibility to ensure fair and equitable access to consulting opportunities. The project director did not specifically document his efforts to identify and select qualified consultants. He hired consultants based on interviews, qualifications, and past performance. In the following two cases, the project director hired relatives:

- The wife of Project LEAD's director was paid nearly \$8,250 for services she provided to establish a system to compile, analyze, and summarize confidential questionnaire data about Project LEAD's seminar participants.
- The son of Metro ECSU's former executive director was paid \$1,000 to conduct two training sessions.

Also, Metro ECSU often did not enter into a new contract when it hired a consultant it had previously used. Consultant service agreements did not exist for 18 of 25 tested consultant payments. A consultant services agreement would specify the service dates, the specific services required, and the amount to be paid for the services rendered.

Generally, where invoices existed, the services provided seemed related to Project LEAD. However, in one instance, Metro ECSU used Project LEAD funds to pay \$7,000 to a consultant where the services provided, as documented on the invoice, were clearly not related to Project LEAD. Also, vendor invoices did not support five payments, totaling \$8,740. Metro ECSU made one payment based on the consultant's estimate of time and costs. Although we determined that the vendors provided the services, an adequate internal control structure suggests payments only be made based on approved invoices.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Recommendations

- *Metro ECSU should develop a policy for consultant services. The policy should require valid service agreements for all consultants and establish a dollar threshold for when the organization needs to document its consultant selection process.*
- *Metro ECSU should only pay a consultant based on its review and approval of a detailed invoice.*
- *Metro ECSU should only charge a project for related costs.*
- *Metro ECSU should repay the department \$7,000 in consultant service costs that were inappropriately charged to the Project LEAD grant.*

Minnesota Department of Education Response:

Recommendation 3.4: MDE will collect these funds and provide for the proper reconciliation of federal funds as with recommendation 2.2.

Recommendations 2.5 and 3.1 through 3.3 apply to the operations of the Metro ECSU and response on implementation of these recommendations should come from them. However, MDE is in the process of developing standards for financial accountability to be included in grant documents for all grantees. MDE's administrative services contracts and internal auditing sections are working together as a result of a previous audit finding with Metro ECSU to identify criteria for grantees to make certain they have the ability to perform their fiduciary responsibilities with regard to the protection of public funds. All non-formula grant recipients of the MDE will have the same responsibilities.

We will implement the recommendations of the report and make sure that we safeguard the public trust in the use and distribution of public funds.

Person Responsible: Tammy McGlone

Estimated Completion Date: Ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-13-1 *Lax SSN validation follow-up controls.*

1. Social security number validation follow-up controls were lax in several respects.

The department does not have reports or other control mechanisms to readily identify people with longstanding social security number discrepancies. Discrepancies occur when the number supplied by a person does not agree with Social Security Administration information. The department provides county caseworkers with a biweekly report that identifies social security number discrepancies. However, this report does not include dates to isolate discrepancies that have been outstanding for extended periods. We analyzed active cases in December 2004 and found 1,375 people with social security number discrepancies who collected benefits for over nine months. In one case, a social security number appeared to have been transposed when entered in MAXIS in December 2003. The error was not corrected, despite appearing on biweekly discrepancy reports for over a year. Developing reports that age outstanding discrepancies is one possible way to alert managers to high-risk cases.

The department also has inadequate controls over people who must apply for a social security number from the Social Security Administration. Applicants must supply a social security number to be eligible for most forms of public assistance. However, people in the process of applying for a number can collect benefits. When questioned, the department told us that it does not produce reports to alert caseworkers to missing social security numbers until they have been outstanding 270 days. Since it typically takes less than a month to apply for and receive a social security number, we believe that waiting 270 days to follow-up on cases with missing numbers is unreasonable. During December 2004, we identified 4,130 people with missing social security numbers who had collected benefits for over 270 days. Many had collected benefits for over 400 days.

Confirming the accuracy of social security numbers is vital. The department cannot perform federally mandated IEVS data validations without accurate social security numbers. Therefore, the department should develop new reports and procedures to aggressively pursue outstanding social security number issues.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Recommendations

- *The department should develop aging reports or other tools to help caseworkers and managers identify people with longstanding social security number discrepancies.*
- *The department should adopt procedures and develop reports to more aggressively pursue cases with missing social security numbers.*

Minnesota Department of Human Services Response:

The department agrees with both recommendations. We are working on an implementation plan to develop appropriate tracking tools, policies, and procedures to manage longstanding social security number discrepancies.

Person Responsible: Kate Wulf

Estimated Completion Date: September 30, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-13-2 *IEVS not used to validate eligibility for many program recipients.*

2. The department did not use IEVS to validate eligibility data for many federal program recipients.

The department designed IEVS to exclude certain types of eligibility data from validation. Commonly referred to as "targeting," the practice of not validating certain data is allowable under federal regulations. However, before deploying a targeting strategy, states must submit written justification to the appropriate federal agency for approval. The department did not seek federal approval for many of the targeting practices that we identified during our audit.

For reporting purposes, we classified the unapproved targeting practices into five categories:

- unauthorized changes to approved discrepancy thresholds;
- data not validated for non-recipient members of a recipient's household;
- data not validated for recipients whose cases were not active for the entire period of an IEVS match;
- data not validated for recipients whose cases were inactive when an IEVS match was run; and
- data not validated for recipients whose cases were administered by the Mille Lacs Band of Ojibwe.

The following paragraphs discuss our concerns with each of these targeting practices in more detail.

Discrepancy thresholds

In 1990, the department received federal approval to use certain discrepancy thresholds for each of its IEVS data matches. Establishing thresholds helps the department and county caseworkers focus their resources on the most significant discrepancies. Since 1990, the department has made significant changes to its discrepancy thresholds. To illustrate, the department had approval not to investigate any Internal Revenue Service unearned income discrepancies below \$900 per year.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

The department subsequently changed the unearned income discrepancy threshold to \$2,000 per year. However, we found no evidence that the department sought approval for the change, as required by federal regulations. We also found other unapproved changes to IEVS discrepancy thresholds.

Data for household members of the recipient

The income of other individuals, such as family members residing in a household, is a factor that must be considered when determining eligibility for some federal programs. Though the department collects this data on its standard application for assistance, it does not validate its accuracy or completeness through IEVS, as required by federal regulations. In one case we reviewed, a household member of a Medical Assistant and Food Stamps recipient reported no income. However, after examining wage data gathered by the department, we learned that this individual earned \$25,000. The department requests household member validation data from external sources, such as the Minnesota Department of Employment and Economic Development. However, it does not use the data.

Recipients who were not active for an entire IEVS match period

The department does not validate eligibility data for recipients who were not active for the entire period of a particular IEVS match. To illustrate, in August 2004, the department ran an IEVS file match to validate January through March 2004 wages. This IEVS match did not validate the accuracy or completeness of any wages reported by recipients whose cases were not active for the entire three month period. This one IEVS process excluded over 20,000 recipients. We found no provisions in federal regulations that give states the authority to exclude cases from validation for certain periods.

We recognize that matching data for periods that are not the same length will result in more discrepancies. However, the resulting information may help caseworkers identify inaccurate or incomplete eligibility data that they otherwise may miss. For example, one recipient that we reviewed reported no wages during the first quarter of 2004. However, wage data that the department obtained from the Minnesota Department of Employment and Economic Development indicated that this recipient earned \$35,462 during the quarter. The IEVS file match did not validate the reported wages because this recipient did not start receiving benefits until February 2004. Therefore, the caseworker never had an opportunity to question the recipient about the potential unreported income.

Recipients with cases that were inactive when an IEVS match was run

The department does not validate eligibility data for recipients whose cases were no longer active when an IEVS match was run. IEVS file matches typically run many months after the match period. For example, the 2004 first quarter wage match with the Minnesota Department of Employment and Economic Development was not run until August 2004. The department did not validate wages for any cases that closed prior to the date in August when the match was run, even if those cases were active during the match period. When questioned, managers told us

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

they believe that the department does not have the legal authority to request information from people who are former recipients. Managers also indicated that people with closed cases would have no incentive to cooperate with caseworkers trying to resolve IEVS discrepancies.

We did not find any legal provisions prohibiting the department from validating data in closed cases. Furthermore, even though cases have been closed, we believe that it is prudent to confirm that people who received public assistance were in fact eligible.

Cases administered by the Mille Lacs Band of Ojibwe

The department did not provide IEVS discrepancy information to tribal caseworkers of the Mille Lacs Band of Ojibwe. The Mille Lacs Band of Ojibwe has contractual agreements with the state and federal governments to administer federal programs. These agreements provide tribal caseworkers with access to MAXIS, the statewide computer system used to determine eligibility for public assistance programs. The department ran the required IEVS file matches for cases managed by the Mille Lacs Band of Ojibwe. However, the department did not disseminate discrepancy information to the tribal caseworkers. When asked, the department indicated that federal regulations prohibit the disclosure of Internal Revenue Service data.

We encourage the department and Mille Lacs Band of Ojibwe leaders to seek approval to share federal tax data. In the meantime, the department should disseminate to tribal caseworkers IEVS discrepancy information that does not include Internal Revenue Service data.

Recommendations

- *The department should validate all income and eligibility data that is required to be validated by federal regulations. If it chooses to exclude certain types of income and eligibility data from its IEVS matches, the department should obtain federal approval.*
- *The department should obtain a legal opinion to determine if it can request information from people who are no longer active recipients of public assistance.*
- *The department should work with Mille Lacs Band of Ojibwe officials to seek approval to share federal tax data.*

Minnesota Department of Human Services Response:

Recommendation 2-1: The department agrees with the recommendation. We will obtain clarification from the Department of Health and Human Services on which populations we are required to validate and will revise and resubmit our targeting plan. The department will submit for federal approval an updated targeting plan for any excluded income types and eligibility data from its IEVS matches.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Recommendation 2-2: The department agrees with the recommendation. We will obtain a legal opinion on this issue.

Recommendation 2-3: The department originally shared federal tax data with the Mille Lacs Band of Ojibwe. The Internal Revenue Service (IRS) audited the department for compliance with their requirements concerning the sharing of federal tax information. They found that we had violated their regulations by sharing this data with the Mille Lacs Band of Ojibwe. We then appealed their finding but the IRS denied our appeal. After the denial, we removed the Mille Lacs Band of Ojibwe's access. The department is currently working with the Department of Health and Human Services to resolve the conflicting federal requirements.

Person Responsible: Ramona Scarpace

Estimated Completion Date: June 30, 2005

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.778 Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-13-3 Unclear how IEVS discrepancy data impacts eligibility for prior periods.

3. The department has not clearly defined how IEVS discrepancy data impacts the eligibility of Medical Assistance recipients.

Policies and procedures provided to county caseworkers do not clearly explain what to do with IEVS discrepancy information for Medical Assistance (CFDA# 93.778) recipients. In some, but not all cases, policies instruct caseworkers to consider the impact of IEVS discrepancies on Medical Assistance eligibility and benefits. However, this policy guidance conflicts with other IEVS information distributed to caseworkers and what we were told during conversations with staff. Specifically, we were told that caseworkers do not use IEVS discrepancy data to determine if Medical Assistance recipients were over awarded or ineligible during prior periods. We think that unclear and conflicting directives have resulted in some caseworkers not diligently validating and resolving IEVS discrepancies for Medical Assistance recipients.

Computerized notes for many cases that we reviewed indicate that caseworkers are not adequately following up on IEVS discrepancies for the Medical Assistance program. In one instance, wage information gathered from the Minnesota Department of Employment and Economic Development indicated that a Medical Assistance recipient earned \$119,424 between January and March 2004. This same recipient reported to her caseworker biweekly earnings of only \$162. The caseworker resolved this IEVS discrepancy by indicating, "*Job was already on file. Case is MA only and Job panels are not updated on a monthly basis. No further action required.*" We found similar notes in other case files that we reviewed, supporting a decision not to pursue prior period eligibility concerns:

- "*Healthcare only so cannot go back and take away benefits. No affect.*"
- "*I cannot go back and take away MA NC(No Change). This job was not reported to me timely.*"
- "*Client is on MA, we will not go back so no action needed.*"
- "*On QMB/PDP; Would have been over Inc Standard but can't go back and penalize.*"
- "*This would not affect his current MA, and we cannot go back.*"

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- *"This income occurred in 2002 and client has only had MA, and we cannot go back and do a negative action."*
- *"This job has not been verified. I cannot go back and take away HC(Healthcare) or issue an overpayment."*
- *"No active food stamp program for time period, only MA for William and can't go back for MA."*
- *"Client on MA only, job was reported but monthly wages are not update for MA."*

Given the enormous cost of Medical Assistance, the department and counties must do more to aggressively pursue recipients who collected benefits that were based on inaccurate or incomplete eligibility data. The department and counties also should take steps to quantify the amount of Medical Assistance paid on behalf of ineligible recipients. We recognize that there are significant challenges in recovering funds from ineligible people who actually received medical services. However, quantifying the extent of the problem will help the department and policy makers make more informed decisions.

Issues raised in this finding are similar to those expressed by our office in the August 2003 report, *"Controlling Improper Payments in the Medical Assistance Program."* In that report, we commented that some departmental staff believed county caseworkers did not question applicants as much as they should about eligibility criteria, such as income and assets. The report also highlighted the fact that the department did not estimate payment error rates resulting from Medical Assistance eligibility and noted weaknesses with the pursuit of recipient fraud. Ultimately, the report concluded that the state's approach to controlling improper payments needs more focus, coordination, and commitment.

Recommendations

- *The department should revise its Medical Assistance policies and procedures to ensure that caseworkers resolve all IEVS discrepancies, including those that pertain to prior eligibility periods.*
- *The department should track and quantify Medical Assistance payments made on behalf of ineligible recipients.*

Minnesota Department of Human Services Response:

The department agrees with the recommendations and will begin drafting a corrective action plan.

Person Responsible: Kathleen Henry

Estimated Completion Date: September 30, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers /Program Names:

93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-13-4 *IEVS discrepancies not promptly resolved.*

4. PRIOR FINDING PARTIALLY RESOLVED: The department did not ensure that counties resolve IEVS discrepancies within federally mandated timelines.

The department made progress to increase the timeliness of IEVS discrepancy resolutions. However, the department still is not in compliance with the resolution timeframes outlined in federal regulations. Federal regulations require states to resolve at least 80 percent of its IEVS discrepancies within 45 days. By not promptly resolving discrepancies, the department is at risk of providing assistance payments to ineligible recipients and could be penalized by the federal government.

Between July 2003 and July 2004, caseworkers resolved 75.4 percent of all IEVS discrepancies in 45 days or less. In fact, 66 of the 87 counties in Minnesota met the 80 percent requirement. However, unacceptable compliance rates at the remaining 21 counties decreased the overall statewide average to a level that did not comply with federal regulations. Table 2-2 lists the 21 counties that did not resolve 80 percent of their IEVS discrepancies within 45 days:

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Section III: Federal Program Audit Findings - Continued

Table 2-2
Counties Not In Compliance With IEVS Resolution Requirements
July 2003 through July 2004

County Name	Discrepancies To Resolve	More than 45 Days	Compliance Rate
Beltrami	1,470	462	68.57%
Chippewa	273	81	70.33%
Chisago	569	130	77.15%
Clearwater	185	39	78.92%
Douglas	525	113	78.48%
Goodhue	471	108	77.07%
Grant	120	50	58.33%
Hennepin	23,926	8,927	62.69%
Isanti	563	221	60.75%
Itasca	848	306	63.92%
LeSueur	379	86	77.31%
Lyon	475	132	72.21%
Otter Tail	853	208	75.62%
Ramsey	10,200	3,580	64.90%
Renville	410	96	76.59%
Sibley	242	56	76.86%
Steele	913	430	52.90%
Todd	406	117	71.18%
Washington	1,767	751	57.50%
Winona	657	140	78.69%
Wright	1,138	341	70.04%

Source: Auditor prepared.

Recommendation

- *The department should work with the county social service agencies to improve their IEVS discrepancy resolution processes. Special emphasis should be directed to counties not in compliance with federal regulations.*

Minnesota Department of Human Services Response:

The department agrees with the recommendation and will continue to work with counties, particularly those not in compliance with federal regulations, to improve the timeliness of IEVS resolutions statewide.

Person Responsible: Ramona Scarpace

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
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Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-13-5 *Inappropriate security clearance to change IEVS data.*

5. PRIOR FINDING PARTIALLY RESOLVED: Many employees had inappropriate security clearance to change IEVS data.

Many employees had security clearances that they did not need to fulfill their job duties. Some groups of people had broad clearance to read and update the discrepancy thresholds used by the IEVS programs, as well as other critical MAXIS data and computer programs. After examining these groups, we identified more than 100 information technology professionals whose job responsibilities did not require such clearance.

We raised concerns with the broad access of these information technology professionals in a security report released in August 2002. Since then, the department has worked to reduce some of the data and programs that these individuals can access. However, additional work remains to reduce the risk of inadvertent or unauthorized changes to critical data and computer programs.

Recommendation

- *The department should ensure that all security clearances are commensurate with employees' job duties.*

Minnesota Department of Human Services Response:

The department has made substantial progress in this area and agrees that additional work remains.

Person Responsible: Kate Wulf

Estimated Completion Date: September 30, 2005

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Section III: Federal Program Audit Findings - Continued

Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-13-6 *Ineffective IEVS data processing controls.*

6. The department lacked effective controls to ensure that IEVS file matches were completely processed.

The department did not monitor its IEVS file match programs to ensure that processing results were in line with expectations. Although the department produced various control reports to tally the number of records processed by its data matching programs, it never compared those results to expectations. Errors could occur and go undetected because the department lacks these important process-monitoring controls.

The department also does not have controls to ensure that 1) it gets all IEVS match files that it requests from external entities, such as the Minnesota Department of Employment and Economic Development, and 2) files returned contain the proper data. The department sends files to external entities requesting records for specific recipients of public assistance. However, it does not reconcile the records obtained to those requested. Without this control, the department has no mechanism to detect missing or incomplete files.

Recommendations

- *The department should review IEVS processing results to ensure that they do not deviate from expectations.*
- *The department should develop procedures to ensure that it receives all data requested from external entities.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota Department of Human Services Response:

The department agrees with the recommendation. We will make changes to send alerts when expected file totals don't match normal processed totals.

Person Responsible: Kate Wulf

Estimated Completion Date: September 30, 2005

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Report 05-13

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-13-7 *Insufficient audit trail to prove IEVS matches were completed.*

- 7. The department does not have a sufficient audit trail to prove that required IEVS matches have been completed.**

The department does not maintain records for applicants and recipients that show the results of all IEVS matches. Federal regulations require states to maintain records that show the disposition of IEVS information. Currently, the disposition of IEVS discrepancy information sent to county caseworkers can be accessed through MAXIS. However, the department does not maintain records for IEVS data that it excluded from validation. Without this information, we could not determine if the department performed all required IEVS validations for specific applicants and recipients.

Recommendation

- *The department should establish an audit trail to track the status of IEVS file matches.*

Minnesota Department of Human Services Response:

The department disagrees with this finding and recommendation. In our opinion, we are not required to track IEVS matches that were excluded from county review based on our targeting plan. We will seek federal clarification on this issue.

Person Responsible: Kate Wulf

Estimated Completion Date: September 30, 2005

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Report 05-14

State Agency: Minnesota Department of Commerce

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.568 Low Income Home Energy Assistance

Questioned Costs: Cannot be determined

Finding 05-14-2 *Inadequate resolution of subrecipient audit issues.*

2. The department did not ensure that two subrecipient organizations resolved internal control concerns reported in local audits.

The Department of Commerce did not ensure that two subrecipient entities timely submitted annual financial and compliance audit reports, and that the entities took corrective action on issues reported for the Low Income Home Energy Assistance (CFDA #93.568) program. The external audits, received four and seven months late, disclosed unresolved ongoing weaknesses in the general financial management practices of two Indian tribes that distribute heating assistance. The tribes continued to receive federal funding from the department, individually totaling \$1,062,272 and \$835,060 for fiscal year 2004, even though these audit concerns have not been resolved.

Federal regulations require the department to monitor audits of subrecipient organizations for appropriate and timely corrective action on all audit findings. To enforce such provisions, the department has the authority to impose sanctions and discontinue federal program funding. Poor financial management creates special risks and vulnerabilities that can result in inappropriate transactions or fraud. In addition, significant weaknesses in the management of the federal programs could compromise the ability of the subrecipient to deliver an appropriate level of service to eligible recipients.

Recommendation

- *The department should evaluate the inability of these subrecipient organizations to file timely annual audit reports and address ongoing financial management concerns identified in those audits. It should explore ways to rectify the problems, including consultation with the federal cognizant agency and possible sanctions on future funding.*

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota Department of Commerce Response:

The Department of Commerce will comply with this recommendation.

In October of 2004, the department began closely monitoring both subrecipient organizations. We have made special monitoring visits to each, including multiple visits to one of the agencies. The visits have focused on program policy compliance.

The department has authority to impose penalties or to terminate contracts with the local service providers for failure to provide timely audit reports, or for failure to address the financial management concerns identified in the audits.

The LIHEAP director has discussed these issues with the Director of the Division of Energy Assistance, Office of Community Services, U.S. Department of Health and Human Services. The federal director offered several suggestions that the Department is currently assessing.

The department will require the local service providers to comply with federal and state laws and policies, and with contractual requirements, by the close of the federal fiscal year on September 30, 2005. We will require them to provide audit reports, and to comply with the audit findings.

Person Responsible: John Harvanko

Estimated Completion Date: November 30, 2005.

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Report 05-16

State Agency: Minnesota Department of Health

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.557	Special Nutrition for Women, Infants & Children
93.283	CDC – Investigations and Technical Assistance

Questioned Costs: Cannot be determined

Finding 05-16-1 *Salary allocations not sufficiently documented.*

- 1. PRIOR FINDING NOT RESOLVED:** The department did not comply with federal and state requirements for documenting time charged to programs, including the transfer of payroll costs between programs.

The department did not adequately document the basis for payroll costs charged to the WIC (CFDA 10.557) and Centers for Disease Control (CDC) Technical Assistance (CFDA 93.283) programs. As a result, we were unable to determine if the department properly allocated payroll expenditures to the proper funding sources.

Payroll charges to specific programs must be supported by evidence that the employees, in fact, worked on those programs. The federal government addresses this issue in U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. The circular identifies standards for time distribution and payroll documentation for federal programs. The circular states that employees who work on multiple programs must have a salary distribution supported by personnel activity reports or equivalent documentation. This documentation must reflect the actual activity of each employee and account for the total activity for which each employee is compensated. In addition, where employees are expected to work solely on a single federal program, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

The department used both payroll expense transfers and expenditure corrections on a regular basis as a budgetary tool to transfer payroll costs between state and federal programs. However, support for these transfers was often inadequate. We noted the following specific instances of noncompliance relating to payroll funding documentation

- The department did not comply with federal requirements and department policy for documenting time charged to federal programs. Two of the six payroll expense transfers we sampled for CDC should have been supported by periodic certifications

Minnesota Office of the Legislative Auditor
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Section III: Federal Program Audit Findings - Continued

that the employees worked only on that federal program. However, there were no certifications on file for the employees. In addition, nine sample items involved employees working on either WIC or CDC, as well as on other programs. In order to change those employees' payroll funding, the department should have required time studies to support the hours the employees worked on each program. There were no time studies on file for these nine sample items.

- The department did not comply with the Department of Finance's policy for payroll expense transfers. According to the policy, "The mass expense transfer transaction is designed to correct a one-time funding problem. It is not to be used to correct a recurring problem." The department used mass expense transfers to retroactively move payroll costs between programs each year. Instead, the department should attempt to code all of its positions to the correct expense budgets at the beginning of each year, to minimize the need for retroactive adjustments.
- The department did not always document the reasons employee payroll funding changes were being requested. Eight of 15 requests for payroll expense transfers or corrections affecting the WIC and CDC programs did not provide sufficient detail about the purpose of the request. Sufficient documentation helps ensure that the transactions are consistent with state or federal requirements.

Using expense transfers and payroll expense corrections as a budgetary tool weakens controls designed to ensure that the department funded payroll in accordance with actual work performed and makes it difficult to determine if employees' time is charged to the appropriate funding source. Inaccurate and undocumented payroll funding could result in unallowable costs.

Recommendation

- *The Department of Health should comply with federal and state requirements for charging payroll to specific programs by:*
 - *establishing multiple funding sources for individual employees in SEMA4, as appropriate, to reduce the need for mass payroll expense transfers;*
 - *completing the periodic certifications for employees charged to a single federal program;*
 - *performing and documenting time studies when required; and*
 - *documenting the reason for transfers of payroll charges between funding sources and how the transfer is consistent with state or federal requirements.*

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota Department of Health Response:

The department currently split codes positions in SEMA4 at the time a new position is created. In addition, the department annually, as part of preparing spending plans for the new year, reviews the staffing roster to ascertain the correct split on positions. The department does not have the available staff, nor sees the need, to adjust position allocation more often since costs are adjusted to time studies on a quarterly basis.

The department will also prepare and distribute to employees, a standard statement that can be used to certify 100 percent participation on a federal program.

The department will follow-up with the programs that are required to complete time studies to assure that a mechanism is in place so that time studies are completed on a timely basis. Furthermore, the department will be exploring options with other state agencies to propose modifications to SEMA4 that would make time entry easier for those employees that are in a multiple funded position.

The department will require written explanation for the transfer of payroll charges between funding sources.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

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Section III: Federal Program Audit Findings - Continued

Report 05-16

State Agency: Minnesota Department of Health

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.283 CDC – Investigations and Technical Assistance

Questioned Costs: Cannot be determined

Finding 05-16-3 *Inadequate management of fixed assets.*

3. PRIOR FINDING PARTIALLY RESOLVED: The Department of Health did not adequately manage its fixed assets.

The department did not adequately manage fixed assets purchased through federal CDC Investigations and Technical Assistance (CFDA 93.283) funding. We reported last year that the department did not record all fixed assets in its inventory records. The department did not always include the physical location of assets on the inventory lists. In addition, the department did not always include other important data in its inventory records, such as the funding source, date received, and estimated useful life. The department hired a fixed asset manager in June 2004 to ensure that the asset records are more complete.

The department had not performed a complete physical inventory of fixed assets in a number of years. According to federal regulations, the department should manage the equipment acquired under federal grants in accordance with state fixed asset procedures. The Department of Administration's Property Management Reporting and Accountability Policy, issued October 9, 2003, states that complete physical inventories for capital assets and sensitive items must be conducted, at a minimum, biennially.

Without complete and accurate fixed asset inventory records, the department is unable to adequately manage, track, and report fixed assets. The department may also be at risk of not complying with federal requirements when disposing of equipment acquired through federal funding.

Recommendation

- *The department should improve its fixed assets management by maintaining a complete and accurate record of its fixed assets, including the funding source for fixed assets acquired through federal grants.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota Department of Health Response:

In June of 2004, the department filled a position dedicated to the management of fixed assets. The department has made progress in this area, fixed asset inventory has been adjusted to the \$5,000 level, items that have been discarded or replaced have been taken off the inventory, and a process has been put in place to identify assets at the time they are ordered. Additional steps will be taken this year to come into compliance.

Person Responsible: David Hovet, Director, Finance and Facilities Management

Estimated Completion Date: Ongoing

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Report 05-17

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.225 Unemployment Services

Questioned Costs: Cannot be determined

Finding 05-17-1 Inadequate review of ownership changes and employer wage detail changes.

This finding is an internal control issue we reported on in more detail in Section II.

Finding 05-17-2 Inadequate data integrity controls over employer rate calculations.

This finding is an internal control issue we reported on in more detail in Section II.

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Section III: Federal Program Audit Findings - Continued

Report 05-17

State Agency: Minnesota Department of Employment and Economic Development

Federal Agency: U.S. Department of Labor

CFDA Numbers/Program Names:

17.207	Employment Services
17.245	Trade Adjustment Assistance
17.260	Workforce Investment Act – Dislocated Worker

Questioned Costs: Cannot be determined

Finding 05-17-3 *Inaccurate determination of federal program expenditures.*

3. DEED did not accurately identify and report federal program expenditures.

DEED reported inaccurate federal program expenditures to the Department of Finance for inclusion in the state's Single Audit Financial and Compliance Report. It has no mechanism to ensure that the full population of federal expenditures in its accounting system is properly captured. Our audit found that DEED incorrectly determined the federal program expenditures as follows:

- DEED omitted two national emergency grants totaling \$2.2 million for the Workforce Investment Act-Dislocated Worker (CFDA #17.260) program. The federal government instructed DEED to report the emergency grants in the WIA program. It appears that the department overlooked these expenditures since the accounting system ledgers had ended or were closed out prior to June 30, 2004.
- DEED made other errors resulting in federal expenditures being overstated by \$431,000 for the Trade Adjustment Act (CFDA # 17.245). The errors involved double-counting expenditures from the same accounting ledger.

In addition, funding from other state agencies requires special treatment. We found that DEED inappropriately included \$1.9 million of Temporary Aid for Needy Families (CFDA #93.558) subgrant funding in its Employment Services (CFDA #17.207) program expenditures. The state Department of Human Services provided TANF administrative money to DEED to fund the one stop operating system. To avoid double-counting these expenditures, only the originating agency should record the federal program expenditures.

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Section III: Federal Program Audit Findings - Continued

Recommendation

- *DEED should develop a method to identify the full population of federal expenditures in its accounting system to ensure accurate reporting by federal program. Expenditures subgranted from another state agency should only be recorded by the originating agency.*

Minnesota Department of Employment and Economic Development Response:

We agree. DEED will retain all grants in our accounting system through June 30th of each year to prevent missing any grant. We will review our single audit schedules for accuracy.

Responsible Person: John Stavros

Estimated Completion Date: June 30, 2005

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Report 05-17

State Agency: Minnesota Department of Employment and Economic Development

Federal Agencies: U.S. Department of Education
U.S. Department of Labor

CFDA Numbers/Program Names:

17.207	Employment Services
17.801	Disabled Veterans Outreach Program
17.804	Local Veterans' Employment Representative
84.126	Vocational Rehabilitation

Questioned Costs: Cannot be determined

Finding 05-17-4 Lack of written professional services contracts.
 Lack of contractor suspension and debarment verification.

4. DEED did not comply with contract requirements for two federal programs.

DEED paid for professional services provided by medical vendors for the Vocational Rehabilitation (CFDA #84.126) program without written contracts. In addition, the department did not ensure that contractors for the Employment Services Cluster (CFDA #17.207, #17.801, and #17.804) were not suspended or debarred from receiving federal funds.

DEED paid for medical consultant services (including psychologists, mental health professionals, chemical dependency counselors, nurses, and career counselors) without a formal professional and technical contract. Federal compliance requirements indicate that states "shall use the same State policies and procedures used for procurement from non-federal funds." However, we found that DEED did not follow Minn. Stat. Sections 16C.05 and 16C.08 requiring written contracts for vendor services exceeding \$5,000 annually. In fact, Minn. Stat. Section 16C.05, Subd. 3 provides authority for the DEED commissioner to expedite contracts directly without approval of the Department of Administration or the Attorney General's Office. Instead of using the standard state contract, the department used client authorization forms to specify the services sought. However, the vendor does not sign the client form, and it excludes key contract features designed to protect public interests.

Federal regulations prohibit states from procuring items with federal money from vendors who are suspended or debarred. The federal government suspends or debar vendors when it determines, or is informed, that the vendors have abused public trust or perhaps violated program provisions. The federal government has a process to identify suspended or debarred vendors and requires states to prevent them from receiving federal funds in the future. We found that neither DEED nor the state Department of Administration takes the steps to verify that a vendor is not suspended or debarred. In addition, the department does not include standard contract language

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

requiring subrecipients to certify it refrains from subcontracting with suspended or debarred vendors. Without the proper certification, DEED is liable for all disallowed costs resulting from any payments to suspended or debarred vendors.

Recommendations

- *DEED should prepare written contracts for all professional and technical services anticipated to exceed \$5,000 each year.*
- *DEED should ensure that federal funds are not paid to vendors who are suspended or debarred by the federal government*

Minnesota Department of Employment and Economic Development Response:

Minn. Stat. Sections 16C.05 and 16C.08 require written contracts for vendor services exceeding \$5,000 annually. The audit report states that "the vendor does not sign the client form, and it excludes key contract features designed to protect public interests." Through the Vocational Rehabilitation program, DEED annually receives services from over 130 medical providers for approximately 1,200 evaluations.

Through an agreement with the Department of Administration, the ongoing practice has been to publish in the State Register, prior to the start of the fiscal year, the fee schedule for which DEED will reimburse service medical providers for evaluations. When an evaluation is then needed, individual authorizations (client forms), based on the published fee schedule, are provided by Vocational Rehabilitation counselors to the medical service provider. We believe this process provides value for the taxpayer and has protected the public interest. DEED will work with the Minnesota Department of Administration and its federal partners to evaluate this process and determine if further changes are needed.

Person Responsible: Bonnie Elsey

Estimated Completion Date: December 31, 2005

DEED made no payments to suspended or debarred vendors. DEED will work with the Minnesota Department of Administration to develop an approach to review the federal government's debarred and suspended list. Additionally, DEED will add to all contracts the required federal debarment and suspension language.

Person Responsible: John Stavros

Estimated Completion Date: June 30, 2005

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Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.561	Food Stamp Administration
93.558	Temporary Assistance to Needy Families
93.959	Substance Abuse Prevention and Treatment Block Grant
93.563	Child Support Enforcement
93.658	Foster Care – Title IV-E
93.575	Child Care and Development Block Grant
93.667	Social Services Block Grant
93.778	Medical Assistance
93.767	State Children's Health Insurance Program

Questioned Costs: Cannot be determined

Finding 05-18-1 *Salary allocations not sufficiently documented.*

- 1. PRIOR FINDING PARTIALLY RESOLVED: The Department of Human Services did not comply with federal regulations when documenting salaries charged to some federal programs.**

In several ways, the department did not comply with federal regulations when allocating salary costs to federal programs. The department did not adjust estimated salary amounts to actual payroll costs incurred. The department also did not obtain the required certifications from employees working on only one federal program. Finally, the department did not allocate mailroom employee salaries consistently. Table 2 lists the programs subject to the federal cost requirements.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Table 2
Major Federal Programs at the Department of Human Services
Applicability of the OMB Cost Principles Circular Requirements

Food Stamps ⁽³⁾	CFDA 10.551
Food Stamp Administration	CFDA 10.561
Temporary Assistance to Needy Families	CFDA 93.558
Substance Abuse Prevention and Treatment Block Grant ⁽²⁾	CFDA 93.959
Child Support Enforcement ⁽¹⁾	CFDA 93.563
Foster Care – Title IV-E	CFDA 93.658
Child Care and Development Block Grant	CFDA 93.575
Child Care Mandatory and Matching Funds ⁽³⁾	CFDA 93.596
Social Services Block Grant ⁽²⁾	CFDA 93.667
State Health Care Providers' Survey ⁽³⁾	CFDA 93.777
Medical Assistance ⁽¹⁾	CFDA 93.778
State Children's Health Insurance Program ⁽¹⁾	CFDA 93.767

Note 1: These programs are charged payroll costs through the cost allocation plan only.

Note 2: Although these programs are exempt from the OMB cost principle requirements, the department has decided to use the federal cost principles as its standard for the programs instead of developing state cost principles.

Note 3: The department does not charge any payroll costs to this federal program.

Source: Auditor prepared.

First, as noted in the prior audit report, the department charged estimated salary costs to certain federal programs. However, it never compared the employees' actual activities to the estimates to confirm whether its original allocations were accurate or required adjustment. U.S. Office of Management and Budget's *Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments*, identifies standards for time distribution and payroll documentation. Circular A-87 requires "where employees work on multiple activities . . . a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation." "[This documentation] must reflect an after-the-fact distribution of the actual activity of each employee. They must account for the total activity for which each employee is compensated." Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to federal programs.

In addition, the department did not obtain periodic certifications from employees being charged solely to a single federal program. Circular A-87 requires the department to support salary charges by periodic certifications "that the employees worked solely on that program for the period covered by the certification." We believe this requirement also applies to programs such as Child Support Enforcement (CFDA 93.563). Although the department includes salaries for that program in their cost allocation plan, the salaries are ultimately totally charged to a single federal program, Child Support Enforcement. The salaries should therefore be subject to the same periodic certification process.

The department developed procedures during fiscal year 2004 to comply with these regulations. It is in the process of implementing the new procedures.

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Section III: Federal Program Audit Findings - Continued

Finally, the department did not consistently treat mailroom employees' salaries. The department included one mailroom employee's salary directly in the Child Support Enforcement cost pool, but it included all other mailroom employees' salaries in the Management Services cost pool. As a result, the Child Support Enforcement Program (CFDA 93.563) paid a larger share of the costs than other federal and state accounts. Circular A-87 specifies that the actual method of allocating costs "should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived." The department made the necessary changes after we notified them of this error.

Recommendations

- *The department should provide the appropriate documentation to support its distribution of employee salaries to federal programs in accordance with OMB Circular A-87.*
- *The department should consistently treat similar costs so that any cost allocation produces an equitable distribution.*

Minnesota Department of Human Services Response:

Recommendation 1-1: The procedures developed during Fiscal Year 2004 are fully implemented and are being maintained on a quarterly basis beginning with Fiscal Year 2005.

Person Responsible: Martin Cammack

Estimated Completion Date: Complete

Recommendation 1-2: The department concurs with the finding regarding one mailroom employee's salary being incorrectly charged to the Child Support Enforcement cost pool. The error was corrected as soon as we were notified of it and the required expenditure adjustments have been made.

The department allocates administrative costs to all benefiting programs in accordance with a Cost Allocation Plan (CAP) completed in compliance with federal regulations contained in 45 CFR 95 Subpart E and OMB Circular A-87 which is approved by the Division of Cost Allocation, Department of Health & Human Services. When new accounts are added, a review is completed to determine the program or programs that receive benefit and should be charged, either directly or through an allocation using an allocation basis that accurately measures the benefits to each program. Subsequent amendments to the CAP are submitted whenever changes occur (at least, annually) that impact the allocation of costs as prescribed by 45 CFR 95.509. Periodic meetings are conducted with program and account managers to review the accounts and verify that they are being correctly charged to benefiting programs.

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Schedule of Findings and Questioned Costs
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With respect to the employee certification requirement applying to the Child Support Enforcement Program (CFDA 93.563), we believe that certification for IV-D staff is not required. ASMB C-10 Implementation Guide for OMB Circular A-87 states:

“3-19 If an employee works on only one federal award, is a certification required?

Yes. However, this requirement can be met through certain payroll codings and time and attendance certifications pursuant to payroll authorizations. For example, if (1) employees work in a dedicated function; (2) their potential assignment to multiple programs/activities is not within the authority, function, or purview of the supervisor responsible for certifying payroll time and attendance; and (3) the employee is coded to a dedicated function not benefiting multiple functions or programs, the payroll certification shall be accepted in lieu of the semi-annual certification of time and effort.”

Staff of the Child Support Enforcement Division meets these three requirements. IV-D staff (1) work in a dedicated function; (2) their supervisors/managers who certify payroll time and attendance do not have the authority, function or purview to assign activities other than IV-D activities to their staff; and (3) the employees, through the payroll and cost allocation plan are coded to a dedicated function not benefiting multiple functions or programs. Consequently, the semi-annual certification is not required.

Person Responsible: Martin Cammack

Estimated Completion Date: Complete

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Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.575 Child Care and Development Block Grant

Questioned Costs: Cannot be determined

Finding 05-18-2 *Advances paid to subrecipients.*

2. The Department of Human Services did not comply with federal cash management requirements for the Child Care and Development Block Grant Program.

The department did not comply with federal cash management requirements for the Child Care and Development Block Grant Program (CFDA 93.575). The department did not comply with federal requirements when it paid advances to certain subrecipients. During our testing of five sample contracts, we noted seven instances where the department paid subrecipients before they incurred the related expenditures. The advances ranged from \$73,000 to over \$478,000 and covered a six-month period. Federal regulations require the state to minimize the time between the transfer of federal money and its use. Paying subrecipients in advance for six months of expenditures does not comply with these requirements.

Recommendation

- *The department should comply with federal cash management provisions by ensuring that subrecipients minimize the time between the transfer of federal money and its use.*

Minnesota Department of Human Services Response:

The department agrees with the recommendation. We will implement policy and procedure changes for the next grant contracts to document the grantee's need for the cash advance.

Person Responsible: James Huber

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
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Report 05-18

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.959 Substance Abuse Prevention and Treatment Block Grant

Questioned Costs: Cannot be determined

Finding 05-18-3 *Overpayments made to some providers.*

3. The Department of Human Services overpaid some Consolidated Chemical Dependency Treatment Fund providers.

In some instances, the department overpaid Consolidated Chemical Dependency Treatment Fund (CCDTF) providers. Between 2001 and 2004, the department allowed some providers to charge the fund for both the date of admittance and the date of discharge as part of the client's service agreement. According to department policy, providers can bill for the date of admittance, but not for the date of discharge. The overpayments occurred because the department provided inconsistent guidance through a provider update it distributed. As of October 2004, the department had identified about \$253,000 of overpayments. The department has since continued to review additional provider bills. Because the Consolidated Chemical Dependency Treatment Fund is a mixture of federal and state funds, some of these overpayments may result in questioned costs for the federal Substance Abuse Prevention and Treatment Block Grant (CFDA 93.959).

Recommendations

- *The department should use Consolidated Chemical Dependency Treatment Funds (CCDTF) only for allowable costs.*
- *The department should continue to review CCDTF provider billings to determine if it paid for the date of discharge, and should seek repayment for any overpayments.*

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota Department of Human Services Response:

The department agrees with the recommendations. In order to meet the expectation that the department use CCDTF only for allowable costs, the department will take advantage of any additional opportunity to reaffirm policy expectations. At this time the department's Chemical Health Division (CHD) will be preparing to implement changes to Rule 25. Part of this preparation is training in regard to Service Agreements. CHD staff will include information about determining treatment start and end dates according to date of discharge policy.

The department continues to review CCDTF provider billings, and seeks repayment for overpayments.

Person Responsible: Donald Eubanks

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
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Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.767	State Children's Health Insurance Program
93.777	State Health Care Providers' Survey
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-4 CMS-64 report not accurate and timely.

4. The Department of Human Services did not ensure that reporting for certain federal programs was timely and accurate.

The department has not maintained sufficient internal controls to ensure the accuracy and timeliness of its Quarterly Medicaid Statement of Expenditures for the Medical Assistance Program (CMS-64) Reports. These reports show certain federal grant activity, including awards and expenditures for the State Children's Insurance Program, the State Survey and Certification of Health Care Providers and Suppliers, and the Medical Assistance Program (CFDA numbers 93.767, 93.777 and 93.778, respectively). The department did not verify the accuracy of certain information included on the report and did not submit the report by the required deadline. We noted the following specific issues related to the CMS-64 report:

- The department did not timely reconcile federal program activity recorded on the Medical Management Information System (MMIS II) and the state's accounting system (MAPS). The department used information from MMIS to complete the CMS-64. As of October 28, 2004, the department had not fully reconciled the two systems' activity for April, May, and June 2004. The differences ranged from \$312,000 to (\$361,000). The net amount of the unreconciled difference for the three-month period was about \$15,000. The department should fully and timely reconcile its systems in preparation for including the information on its federal reports.
- The department did not submit the CMS-64 Reports within 30 days after the end of the quarter, as required by federal regulation. We tested the four quarters of fiscal year 2004 and the first quarter fiscal year 2005 reports and found that the department electronically filed the reports from 4 to 68 days late. We noted similar delays during prior audits.

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- The department used an incorrect award amount on one CMS-64 Report. It did not report approximately \$443 million in federal Medical Assistance program awards and approximately \$12.3 million in related administrative awards on the CMS-64 report for the quarter ended June 30, 2004. The department filed an amended report and made appropriate adjustments in October 2004, after it learned of the error.
- On the CMS-64 Report for the quarter ended June 30, 2004, the department used incorrect Federal Medical Assistance Percentages (FMAP) to calculate prior period adjustments. The department promptly revised the report and resubmitted it in October 2004 after receiving notification of the error from a federal CMS auditor. The correction resulted in the department being eligible for an additional \$140,000 in federal funding.
- The department did not timely credit the Medical Assistance program for uncashed checks. Federal regulations require the department to credit the program for uncashed checks beyond 180 days of issuance. The regulations consider uncashed checks beyond 180 days to be an unallowable program expenditure. The state must identify these checks each quarter and refund all federal funds it received for the uncashed checks by adjusting the quarterly CMS-64 Report. The department has only credited the Medical Assistance program for uncashed checks once per year. These checks were 360 to 540 days beyond their issuance dates, far exceeding the 180-day requirement. For the period ended June 30, 2004, there was approximately \$78,000 in uncashed checks that were 360 to 540 days old.

Recommendations

- *The department should improve its reconciliation and reporting process to allow for timely and accurate completion of the CMS-64 Report.*
- *The department should comply with the federal regulations and credit the Medical Assistance program each quarter for uncashed checks beyond 180 days of issuance.*

Minnesota Department of Human Services Response:

Recommendation 4-1: The department agrees with the recommendation that the CMS-64 Reports should be submitted timely. The department will analyze and review its reconciliation procedures and reporting process and implement improvements with the intent of meeting the thirty day deadline on a consistent basis. Further, the Financial Management Division will increase staff cross-training and oversight to assure that the CMS-64 Report is completed promptly and accurately.

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Because Minnesota is a county administered state, the thirty day deadline is extremely difficult to manage. The department must include costs incurred by counties, school districts and other local agencies in the CMS-64 Report. Over five hundred reporting entities are submitting reports to the department under tight deadlines. There is little room to further tighten those deadlines to allow the department more report preparation time.

Person Responsible: Martin Cammack

Estimated Completion Date: June 30, 2005

Recommendation 4-2: The department agrees with the recommendation. The department will work with the Department of Finance to determine an efficient solution to comply with the federal regulation.

Person Responsible: Martin Cammack

Estimated Completion Date: September 30, 2005

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.767 State Children's Health Insurance Program

Questioned Costs: Cannot be determined

Finding 05-18-5 *Inadequate documentation for certain eligibility criteria.*

5. The Department of Human Services did not adequately document certain eligibility criteria for some State Children's Health Insurance Program participants.

The department did not adequately document all components used to determine eligibility for some participants in the State Children's Health Insurance Program (CFDA 93.767). Our testing of a sample of 12 program participants revealed the following weaknesses:

- The department could not locate critical documents used to determine eligibility for two sample items. For one sample, the department was unable to locate the application form and income documents. Therefore, we were unable to verify that the eligibility determination made by the department complied with federal regulations. For another sample, we were unable to verify the income used to determine the participant's eligibility since the department was unable to find the required income documentation.
- The department did not adequately document adjustments made to the reported income for one participant. When calculating the income to use in the eligibility determination, the department used income amounts from federal tax returns, but adjusted these amounts. There was no documentation to support the adjustments, which resulted in a net increase to income of \$3,500. The income adjustment did not change the participant's eligibility for the program; however, the monthly premium might have changed.
- The department did not require applicants to sign the signature page of the federal tax return. In other cases, the department did not retain the signature page. By signing their tax return, participants are certifying that the information on the tax return is accurate and complete.

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- The department's computer system (MMIS) did not provide historical data showing amounts entered into the system and the person who entered the data. DHS used MMIS when determining eligibility and making payments. In some cases, MMIS stores only the most recent data and no historical data, including the worker who made the determination. The department cannot retroactively review in MMIS the prior income data used to determine eligibility.

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

Recommendation

- *The department should provide documentation for all components used to determine participant eligibility in the State Children's Health Insurance Program.*

Minnesota Department of Human Services Response:

The department agrees with the recommendation. The department will review our policies and procedures to assure documents required to complete an eligibility determination are retained in case records. A corrective action plan will be prepared to strengthen compliance with state and federal laws.

Person Responsible: Kathleen Henry

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
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Report 05-18

State Agency: Minnesota Department of Human Services – Anoka County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-A-1 *No specific monitoring of FIAT override transactions.*

1. Anoka County did not specifically monitor high-risk eligibility override transactions.

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services' (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Anoka County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed an Anoka County FIAT report we had produced, they were surprised at the number of FIATS being done, especially by certain individual caseworkers. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS, and management has not developed and implemented adequate independent oversight. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage.

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Recommendation

- *Anoka County management should develop and implement procedures to monitor eligibility override transactions.*

Minnesota Department of Human Services – Anoka County Response:

Your findings indicate that 'Anoka County management should develop and implement procedures to monitor eligibility override transactions.' Anoka County continuously completes case reviews on a random basis plus we complete periodic special targeted case reviews. When reviews are done we include a review of all case actions, including FIAT transactions, if they occurred. Your report is correct in that we did not specifically target override/FIATed cases for monitoring review. We are not aware of any instance where a FIATed case resulted in inappropriate issuances of benefits. Since FIAT/override reports have now been made available to counties, this makes it possible for counties to review and monitor FIAT usage. As the person responsible for resolution of this issue, I will develop and implement procedures that combine reviews of override/ FIATed cases for anomalous use and random review selection by means of the report provided by DHS. Any training found to be necessary or appropriate relating to proper utilization of the FIAT function will be completed.

Person Responsible: Edna Hoium

Estimated Completion Date: April 15, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services – Anoka County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551 Food Stamps
93.558 Temporary Assistance to Needy Families

Questioned Costs: Cannot be determined

Finding 05-18-A-2 *Inadequate monitoring of employee access to MAXIS.*

2. Anoka County did not adequately monitor employee access to the state's eligibility determination system.

One county caseworker had the ability within MAXIS to disburse benefits, including setting up electronic benefit cards and issuing checks. This access was incompatible with the worker's case management duties because it would allow an individual worker to both set up and pay benefits to a recipient.

In addition, several county human services workers had the access, but not the authority to set up benefit payment vendors within MAXIS. The county designated five employees to enter vendors and gave them the MAXIS-VND* security clearance. However, we found that an additional five employees also had the MAXIS-VND* security clearance. It did not appear that all of these employees needed this access in order to fulfill their job duties. The county should review all employees with the access to set up vendors and minimize the number of employees with that authority.

Recommendation

- *County management should develop and implement procedures to periodically monitor MAXIS security to ensure that county employees only have the minimum access needed for their job duties.*

Minnesota Department of Human Services – Anoka County Response:

Your second recommendation was, 'County management should develop and implement procedures to periodically monitor MAXIS security to ensure that county employees only have the minimum access needed for their job duties.' In your review one worker was found to have incompatible access and this instance has been specifically rectified.

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Also mentioned in this section of your report was that the county should minimize the number of employees who have designated authority to enter vendors. We will continue to request modification of the state held list. Anoka County does have an internal list of persons who are authorized to add vendors and this is honored and monitored. Additionally, Anoka County Income Maintenance has internal procedures to monitor and review the addition of every vendor to the MAXIS system to ensure proper and appropriate additions are done by authorized staff. As the person responsible for resolution of this issue I will ensure that procedures will be developed and implemented that include periodic monitoring of MAXIS security roles that allow the minimum authorized access necessary for their job duties.

Person Responsible: Edna Hoium

Estimated Completion Date: April 15, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services – Dakota County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-D-1 *Inadequate monitoring of FIAT override transactions.*

1. Dakota County did not adequately monitor high-risk eligibility override transactions.

County human services managers and supervisors did not specifically monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or inaccurately deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Dakota County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed a Dakota County FIAT report we had produced, they were surprised by the quantity of FIATS done by some individual caseworkers. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS, and management has not developed and implemented adequate independent oversight.

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Schedule of Findings and Questioned Costs
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Recommendation

- *Dakota County management should develop and implement procedures to adequately monitor eligibility override transactions.*

Minnesota Department of Human Services – Dakota County Response:

During our exit conference with you on February 14th, we reviewed the fact that Dakota County does have a random supervisory case review system for these programs as well as the other Public Assistance Programs we administer. I mentioned that for calendar year 2004, in excess of 1,000 formal random supervisory case reviews were completed on approximately 2,000 program eligibility determinations. In addition, there were over 1,500 informal case reviews completed by trainers and Fraud Prevention Unit staff. As a part of the case review program we have in place, MAXIS functionality, including the FIAT/override function, is reviewed. Our experience from the reviews is that the use of FIAT functionality has not resulted in incorrect issuances of benefits. However, we do not have a formal system in place to specifically target case reviews on which the FIAT function was used.

As you mention, DHS now has FIAT reports available to assist counties in monitoring their FIAT usage. I will ensure that the use of these reports will be incorporated into our random case review selection process by April 15th. Thus, some of the randomly selected cases will be from the DHS reports. Also, supervisors will screen these reports for unusual activity or patterns.

Person Responsible: Dennis H. Anderson

Estimated Completion Date: April 15, 2005

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Report 05-18

State Agency: Minnesota Department of Human Services – Hennepin County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-H-1 *No monitoring of FIAT override transactions.*

1. Hennepin County did not monitor high-risk eligibility override transactions.

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Hennepin County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed a Hennepin County FIAT report we had produced, they were surprised that certain general FIAT codes were routinely being used, when more specific FIAT codes exist. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS and management has not developed and implemented adequate independent oversight. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage.

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Recommendation

- *Hennepin County management should develop and implement procedures to monitor eligibility override transactions.*

Minnesota Department of Human Services – Hennepin County Response:

In June 2004, county supervisors did review a FIAT report covering the period April 1, 2003 through April 30, 2004. That report was the basis for analysis and corrective actions undertaken during the period June 2004 – September 2004. Actions included:

- A review of a list of valid FIAT codes produced by the State, and a survey of staff to determine whether there were recommended changes.
- Identification of the highest FIAT users within the county.
- Distribution of the valid FIAT codes to all supervisors, who shared this information with their staff.
- A question of whether FIAT was used appropriately was included among items to be reviewed on monthly case reviews that supervisors must complete.

A FIAT report is currently made available by the state on a monthly basis. The report consists of 5000 pages in an electronic format, and requires scrolling from side to side and up and down to read each page. A request for a more user-friendly report has been initiated.

Corrective Action Plan for Finding #1:

- A desk guide listing appropriate FIAT codes will be created for staff use by April 30, 2005.
- Appropriate use of FIAT will continue to be highlighted as an item to be reviewed on the monthly case reviews that are to be completed by all supervisors.
- The topic of FIAT will be addressed at supervisory and staff meetings to emphasize the importance, and to check for understanding of the appropriate use of FIAT. These meetings will be conducted by no later than the end of April 2005.
- A request has already been initiated with county analyst staff to work with the state to develop a more user-friendly FIAT report, to be made available on a monthly basis.
- The FIAT report will be reviewed by managers on a monthly basis to monitor for high individual FIAT users, and all other irregularities.

Persons Responsible: Tom Pingatore, Adults Area
Lisa Groves, Families Area

Estimated Completion Date: April 30, 2005

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Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services – Hennepin County

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-H-2 *Untimely resolution of discrepancies identified by IEVS.*

2. Hennepin County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.

Hennepin County did not resolve income discrepancies identified by the Income Eligibility and Verification System (IEVS) in a timely manner, as required by federal regulations. In order to comply with federal requirements, the state Department of Human Services (DHS) coordinates data exchanges with other sources for the Temporary Assistance for Needy Families (TANF, CFDA 93.558) and the Medical Assistance (CFDA 93.778) programs. This data exchange, called IEVS, includes comparing income information submitted by applicants with income and tax information obtained from other state and federal sources, such as the Minnesota Department of Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. For the period July 1, 2003, through August 2, 2004, Hennepin County's resolution rate was 63 percent.

The state and counties have taken steps to increase the timeliness of income discrepancy resolution. DHS has issued an instructional bulletin with suggestions for improving performance, provided additional training resources for county staff, discontinued some optional matches, worked more closely with the largest counties, and followed up with county financial workers who were not timely with the resolution of income discrepancies. DHS also issues a monthly report, which shows all of the unresolved IEVS matches. However, the state does not meet timeliness requirements established by the federal government. Hennepin County is a significant contributor to that compliance concern. By not timely resolving income discrepancies, the state and its counties are at risk of providing assistance payments to ineligible recipients.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Recommendation

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

Minnesota Department of Human Services – Hennepin County Response:

Hennepin County has been reviewing the way in which this work is handled, and determined during the last quarter of 2004 that specializing this task would allow us to be more effective. Since December 2004, the Debt Establishment Unit has been responsible for resolving all income discrepancies in the families area, and part of the adults area. During that time, the target of resolving at least 80% of discrepancies within 45 days has been met. With these positive results, we have decided to add responsibility for all of the adults area to this unit.

Corrective Action Plan for Finding #2: Responsibility for resolving income discrepancies for all areas will be assigned to the Debt Establishment Unit, which is supervised by Lynn Spanton. This unit has demonstrated the ability to meet the goal of 80% resolution within 45 days. If they should encounter future difficulty in meeting that goal, Lynn will notify managers in the families and adults areas, and additional resources will be allocated to the task.

Persons Responsible: Tom Pingatore, Adults Area
Lisa Groves, Families Area

Estimated Completion Date: March 1, 2005.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services – Ramsey County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-R-1 *No monitoring of FIAT override transactions.*

1. Ramsey County did not monitor high-risk eligibility override transactions.

County human services managers and supervisors did not routinely monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp Programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Ramsey County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS and management has not developed and implemented adequate independent oversight.

Recommendation

- *Ramsey County management should develop and implement procedures to routinely monitor eligibility override transactions.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota Department of Human Services – Ramsey County Response:

In response, Ramsey County will run a monthly report of FIAT activity by worker and review that report for anomalous use of the FIAT function. We will follow up with targeted review of cases with such actions and review the activity of workers found to have a pattern of unnecessary use of the FIAT function.

Persons Responsible: Nancy Cincotta
Shannon Kennedy

Estimated Completion Date: March of 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services – Ramsey County

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

93.558 Temporary Assistance to Needy Families
93.778 Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-R-2 *Untimely resolution of discrepancies identified by IEVS.*

2. Ramsey County did not resolve income discrepancies identified as part of the benefit eligibility process in a timely manner.

Ramsey County did not resolve income discrepancies identified by the Income Eligibility and Verification System (IEVS) in a timely manner, as required by federal regulations. In order to comply with federal requirements, the state Department of Human Services (DHS) coordinates data exchanges with other sources for the Temporary Assistance for Needy Families (TANF, CFDA 93.558) and the Medical Assistance (CFDA 93.778) programs. This data exchange, called IEVS, includes comparing income information submitted by applicants with income and tax information obtained from other state and federal sources, such as the Minnesota Department of Employment and Economic Development, the Social Security Administration, and the Internal Revenue Service.

Discrepancies occur when the income amounts recorded in MAXIS, the state's eligibility determination system, differ by more than a pre-established target amount. DHS relies on county human services offices to review and resolve these discrepancies. Federal law requires the state to resolve at least 80 percent of the case discrepancies within 45 days. For the period July 1, 2003 through August 2, 2004, Ramsey County's resolution rate was 65 percent.

The state and counties have taken steps to increase the timeliness of income discrepancy resolution. DHS has issued an instructional bulletin with suggestions for improving performance, provided additional training resources for county staff, discontinued some optional matches, worked more closely with the largest counties, and followed up with county financial workers who were not timely with the resolution of income discrepancies. DHS also issues a monthly report, which shows all of the unresolved IEVS matches. However, the state does not meet timeliness requirements established by the federal government. Ramsey County is a significant contributor to that compliance concern. By not timely resolving income discrepancies, the state and its counties are at risk of providing assistance payments to ineligible recipients.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Recommendation

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

Minnesota Department of Human Services – Ramsey County Response:

In response, Ramsey County proposes to take the following actions:

- Continue to provide supervisors with a monthly list of the overdue IEVS verifications in their units.
- Identify staff or units who do not meet the compliance standard and focus on getting those staff or units into compliance.
- Continue to make IEVS resolutions a priority for monthly casework by requiring every unit to have and follow a monthly IEVS resolution plan.

It is our expectation that following this plan will quickly bring Ramsey County into compliance with federal IEVS resolution requirements.

Persons Responsible: Nancy Cincotta
Shannon Kennedy

Estimated Completion Date: March of 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services – Saint Louis County

Federal Agencies: U.S. Department of Agriculture
U.S. Department of Health and Human Services

CFDA Numbers/Program Names:

10.551	Food Stamps
93.558	Temporary Assistance to Needy Families
93.778	Medical Assistance

Questioned Costs: Cannot be determined

Finding 05-18-S-1 *No monitoring of FIAT override transactions.*

1. Saint Louis County did not monitor high-risk eligibility override transactions.

County human services managers and supervisors did not monitor high-risk eligibility override transactions for the Medical Assistance, Temporary Assistance for Needy Families, and Food Stamp programs. County workers use these override transactions, called FIATS, to allow applicants to receive benefits even though MAXIS, the state Department of Human Services (DHS) eligibility determination system, originally could not make a determination or deemed the person to be ineligible.

In certain cases, it is appropriate for county human services employees to use FIAT transactions. Employees use MAXIS to determine recipient eligibility for several state and federal public assistance programs. Due to continuous changes in state and federal eligibility requirements and other factors, there are certain times when MAXIS does not produce accurate eligibility determinations. When these circumstances arise, most county caseworkers have the ability to use FIAT transactions to override the eligibility determinations produced by the system. These transactions are high-risk and should be thoroughly reviewed and monitored for legitimacy.

We asked human services managers and supervisors at Saint Louis County and at four other counties how they monitored FIAT eligibility override transactions. None of the five counties regularly reviewed specific case files where workers had overridden the normal eligibility determination process. When managers and supervisors reviewed a Saint Louis County FIAT report we had produced, they were surprised at the number of FIATS being done, especially by certain individual caseworkers. The risk of erroneous benefits increases when caseworkers have the ability to bypass established controls by using FIATS, and management has not developed and implemented adequate independent oversight. DHS now has FIAT reports available to assist counties in monitoring their FIAT usage.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Recommendation

- *Saint Louis County human services management should develop and implement procedures to monitor eligibility override transactions.*

Minnesota Department of Human Services – Saint Louis County Response:

1. FIAT eligibility override transactions - six steps have been identified to address FIAT review:
 - a.) Because several programs in MAXIS (General Assistance, Minnesota Supplemental Aide, and Food Support with these cases) must be fiated, a formal request will be made of DHS to automate these programs, which would nearly eliminate the need for fiat. By 4/1/05.
 - b.) One clerical staff person will be assigned to print Infopac FIAT reports monthly. These reports will be distributed to Supervisors by unit. By 4/1/05
 - c.) Supervisors will review monthly FIAT reports with staff members within their units. Begin by 5/1/05.
 - d.) Supervisors will take note of workers with consistently high FIAT numbers and monitor staff for improvement. Begin by 5/1/05.
 - e.) Training on Fiat will be mandated for all financial workers; the FAD Training Coordinator will conduct this training. By 9/1/05.
 - f.) Case reviews by supervisors will be conducted at a rate of 5 reviews per month. Instituted 1/1/05.

Person Responsible: Shelley Saukko

Estimated Completion Date: Various – see above

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-18

State Agency: Minnesota Department of Human Services – Saint Louis County

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name:

93.558 Temporary Assistance to Needy Families

Questioned Costs: Cannot be determined

Finding 05-18-S-2 *Insufficient controls over setting up vendors for cash benefit payments.*

2. Saint Louis County had weaknesses in the controls over cash benefit payments made directly to vendors and alternate payees.

We found significant weaknesses in the way Saint Louis County sets up vendors for cash benefit payments under the Temporary Assistance for Needy Families (CFDA 93.558) program. A financial assistance worker may set up vendors to pay a recipient's cash benefits directly to landlords, utility companies, and others. Certain workers have the ability and security clearance to establish a pending vendor. Pending status vendors can receive payments. A county worker may also establish an alternate payee when the client needs a responsible party to manage the client's benefits. Alternate payees are active as soon as they are established. These payments are high-risk because the cash benefits are being paid to someone other than the intended recipient.

The Minnesota Department of Human Services (DHS) relies on counties to review the vendors listed on the weekly vendor payment reports that the state creates. Although managers and supervisors at Saint Louis County reviewed vendor names sporadically, they did not do the reviews often enough to adequately control the payment process. In addition, they did not review alternate payee names. Finally, we found that the county never reviewed the addresses of vendors or alternate payees for legitimacy, including cross-checking the mailing addresses to county employees' home addresses. Because of this, Saint Louis County risks making payments to inappropriate or fictitious vendors and alternate payees, or sending legitimate warrants to a false address.

Recommendation

- *Saint Louis County management should develop and implement procedures to adequately review the legitimacy of vendors and alternate payees and their addresses.*

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota Department of Human Services – Saint Louis County Response:

2. Cash benefit payments made directly to vendors and alternate payees – five steps have been identified to address vendor payments:
 - a.) Only supervisors will be authorized to set up alternate payees.
 - b.) A current policy on establishment of vendors within St. Louis County will be enforced, denying financial workers access to creating new vendors; all new vendors will be placed into the system by staff from Accounting/Fiscal. Effective 4/1/05.
 - c.) On going: one staff member will be identified to print the New Alternative Payee list and New Vendor list from DHS as they become available, divide the lists by unit, and distribute to supervisors for review. By 5/1/05.
 - d.) A formal request will be made to DHS to eliminate financial worker access to vendor establishment. This is essential to the ability of St. Louis County to enforce the vendor policy that we have established. By 4/1/05.
 - e.) Case reviews by supervisors will be conducted at a rate of 5 reviews per month. Instituted 1/1/05.

Person Responsible: Shelley Saukko

Estimated Completion Date: Various – see above

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report 05-20

State Agency: Minnesota Department of Transportation

Federal Agency: U.S. Department of Transportation

CFDA Number/Program Name:

20.205 Highway Planning and Construction

Questioned Costs: Cannot be determined

Finding 05-20-2 Project oversight procedures need improvement.

2. Prior Audit Finding Not Resolved: The department should improve certain project oversight procedures.

The MnDOT Office of Audit single audit report for fiscal year 2004 identified various concerns and issues where project management oversight could be strengthened or improved. The office identified the following issues for the federal Highway Planning and Construction Program (CFDA #20.205), based on 20 highway construction projects audited.

- The MnDOT Office of Audit recommended additional management attention for bituminous and concrete materials testing requirements. The report indicated that some testing requirements were not met or not properly documented for six bituminous projects and two concrete projects. The report also noted five projects in which testing results fell outside of specification tolerances and required retests, which should have been performed, but were not. One project had 11 instances where testing results fell outside specification tolerances and retests were not performed.
- MnDOT Office of Audit identified three projects where district state engineers inappropriately signed seven delegated contract process project supplemental agreements. These projects were supervised and administered by counties, and the district state engineers should not sign the delegated contract process project supplemental agreements.
- Compliance with state and federal environmental requirements is a continuing problem. Documented weekly inspections of erosion control effectiveness are required for permit coverage under the National Pollutant Discharge Elimination System. The MnDOT Office of Audit report indicated that required documentation for weekly inspections of erosion control effectiveness were not met for 8 of 18 construction projects reviewed. Also, testing and documentation requirements were not met for two bridge lead paint blasting residue projects.
- The MnDOT Office of Audit identified one city project in which the projects quality control/quality assurance language appeared contrary to federal regulations. The project

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language appeared to require contractors to perform quality assurance verification testing. Federal regulations require that verification sampling and testing be performed by the department, not the contractor or vendor.

Recommendation

- *The department should continue to strengthen its project oversight procedures to ensure compliance with federal and state requirements.*

Minnesota Department of Transportation Response:

Increasing numbers of projects at all levels (state, city, county), increasing complexity of work, and evolving requirements are an on-going challenge. Mn/DOT continues through a variety of efforts to keep abreast of requirements and procedures and ensure communication to responsible individuals at all levels.

Persons Responsible: Robert Winter, District Operations Division Director
Richard Stehr, Engineering Services Division Director
Julie Skallman, State Aid for Local Transportation division Director

Estimated Completion Date: January 2005 and on-going

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Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.032	Federal Family Education Loans ("FFEL")
84.033	Federal Work Study
84.038	Federal Perkins Loans
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans ("FDSL")
93.364	Nursing Student Loans

Questioned Costs: None – Procedural Finding Only

Finding KDV-04-1 *Omitted items in published satisfactory academic progress policies.*

Condition: Certain colleges and universities have omitted items within their published academic satisfactory academic progress policy as listed below:

- Minnesota State University Mankato's satisfactory academic progress policy does not address the treatment of NC's (non credit developmental courses).
- Ridgewater College's satisfactory academic progress policy does not address the treatment of NC's and T's (transfer courses).
- Minnesota State Community and Technical College's satisfactory academic progress policy does not address the treatment of R's (repeat courses), NC's and T's and does not explain the process to reinstate student financial aid following a suspension. This policy was carried over from the former Northwest Technical College.
- Minnesota State University Moorhead's satisfactory academic progress policy does not address the treatment of NC's.

In addition, as a result of revisions made to the financial aid satisfactory academic progress policy in response to an issue reported in last years report, Rochester Community and Technical College's ("RCTC") academic satisfactory academic progress policy is more stringent than its financial aid satisfactory academic progress policy. The academic policy states that the maximum number of withdrawal and incomplete course credits cannot exceed the equivalent of eight credits. The financial aid policy previously had the same provision, but currently contains no such language. RCTC does not specifically monitor compliance with this requirement, and will be removing the provision from its academic satisfactory academic policy.

Criteria: The *OMB Compliance Supplement* requires an institution to establish and publish an academic progress policy. These requirements are explained in more detail in the SFA Handbook.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Effect: The above named Colleges and Universities are not in compliance with the SFA Handbook.

Recommendation: Ensure the Colleges' and Universities' satisfactory academic progress policy addresses all of the requirements in the SFA regulations. Implement policies and procedures to be used by the colleges and universities to monitor compliance with satisfactory academic progress requirements in accordance with the SFA regulations.

Minnesota State Colleges and Universities Response:

The Senior Vice Chancellor for Academic and Student Affairs is responsible for several initiatives now underway to address inadequate college and university statements of satisfactory academic progress. Board policy was revised in March 2004 to more clearly state expectations. A new procedure was approved by the Chancellor in April 2004. The procedure specifically addresses each of the items cited in the auditor's findings. The Senior Vice Chancellor has instituted a regular, periodic review of all college and university academic progress policies in order to endure continuing compliance. The Office of Internal Auditing will assist the Senior Vice Chancellor in continuous improvement efforts in the coming year.

Person Responsible: Linda Baer, Senior Vice Chancellor for Academic and Student Affairs

Estimated Completion Date: Fall 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.032 Federal Family Education Loans ("FFEL")
84.268 Federal Direct Student Loans ("FDSL")

Questioned Costs: None – Procedural Finding Only

Finding KDV-04-2 *Changes in student status not timely reported.*

Condition: The following Colleges and Universities did not report changes in student status to the National Student Loan Data System ("NSLDS") clearinghouse within the required deadlines through submission of student status confirmation reports every 60 days. Reports were submitted from one to twenty days late.

	<u>Number of Instances</u>
Alexandria Technical College	1
Anoka Technical College	1
Hennepin Technical College	1
Minneapolis Community and Technical College	2
South Central Technical College	1
St. Cloud State University	1
St. Cloud Technical College	2

In addition, we were unable to verify Northwest Technical College's compliance with the above requirements due to incomplete information.

Criteria: Under the requirements for the Federal Family Education Loan and Federal Direct Student Loan Programs, changes in student status must be reported to NSLDS within 30 days, unless a Roster File is scheduled to be submitted within 60 days.

Effect: The above Colleges and Universities are not in compliance with the reporting requirements specified by federal program guidelines.

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Schedule of Findings and Questioned Costs
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Recommendation: The above Colleges and Universities should ensure student status changes are reported to NSLDS within 30 days, unless a Roster File is completed within 60 days. They should also review the submission dates for NSLDS to ensure compliance with either the 30 or 60 day requirement.

Minnesota State Colleges and Universities Response:

The colleges agree with the Auditor's recommendation and will institute steps to improve practices. The Academic and Student Affairs division will undertake follow up efforts.

Person Responsible: Linda Baer, Senior Vice Chancellor for Academic and Student Affairs

Estimated Completion Date: Fall 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Number/Program Name:

84.063 Federal Pell Grant

Questioned Costs: None – Procedural Finding Only

Finding KDV-04-3 *Student payment data not reported in a timely manner.*

Condition: The following Colleges and Universities did not report Federal Pell Grant Program (Pell) disbursements within 30 days:

	<u>Number of Instances</u>
Anoka Technical College	5
Minnesota State University Moorhead	5
Southwest Minnesota State University	1

Criteria: Under the requirements for the Federal Pell Grant Program, institutions must report student payment data within 30 calendar days after the institution makes a payment to students or becomes aware of the need to make an adjustment to previously reported or expected student payment data.

Effect: The above Colleges and Universities are not in compliance with the reporting requirements specified by federal program guidelines.

Recommendation: The above Colleges and Universities should ensure that Federal Pell Grant expenditures are reported to the U.S. Department of Education within 30 days of being disbursed.

Minnesota State Colleges and Universities Response:

The colleges and universities agree with the Auditor's recommendation and will institute steps to improve practices. The Academic and Student Affairs division will undertake follow up efforts.

Person Responsible: Linda Baer, Senior Vice Chancellor for Academic and Student Affairs

Estimated Completion Date: Fall 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.032	Federal Family Education Loans ("FFEL")
84.038	Federal Perkins Loans
84.063	Federal Pell Grant
84.268	Federal Direct Student Loans ("FDSL")

Questioned Costs: None – Procedural Finding Only

Finding KDV-04-4 *Inadequate policies and procedures for verifying applicant information.*

Condition: The following Colleges and Universities did not have the required policies and procedures in place for verifying applicant information as required by 34 CFR Sections 668.51 through 668.61.

Hennepin Technical College
Northwest Technical College*
Ridgewater College

*This issue now impacts Minnesota State Community and Technical College

Criteria: Under the requirements of 34 CFR Sections 668.51 through 668.61, an institution not participating under an ED-approved QAP is required to establish written procedures that incorporate the above provisions for verifying applicant information, including number of family members, number of family members attending post secondary education institutions, dependency status and adjusted gross income.

Effect: The above Colleges and Universities are not in compliance with the verification requirements specified by federal program guidelines.

Recommendation: The above Colleges and Universities should develop written policies for verification procedures as required by 34 CFR 668.51 through 668.61.

Minnesota State Colleges and Universities Response:

The colleges agree with the Auditor's recommendation and will institute steps to improve practices. The Academic and Student Affairs division will undertake follow up efforts.

Person Responsible: Linda Baer, Senior Vice Chancellor for Academic and Student Affairs

Estimated Completion Date: Fall 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: St. Cloud State University

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.032	Federal Family Education Loans ("FFEL")
84.038	Federal Perkins Loans
84.063	Federal Pell Grant

Questioned Costs: \$10,849

Finding KDV-04-5 *Untimely calculations of return of Title IV funds.*

Condition: Last year, St. Cloud State University ("SCSU") was cited for not performing return of Title IV funds calculations. SCSU has been working with the U.S. Department of Education ("USDOE") on resolving prior year questioned costs. As a result of last year's issue, a tail existed for fiscal year 2004. SCSU estimated that \$ 10,849 could be subject to refund to the USDOE or to lenders. Beginning with the fall 2003 term, SCSU is performing all return to Title IV calculations timely.

A summary of these questioned costs by SFA Program is as follows:

<u>CFDA</u>	<u>Description</u>	<u>Time Period</u>	<u>Total</u>
84.063	Federal Pell Grant	2004	\$ 1,925
84.038	Federal Perkins Loans	2004	2,243
84.032	Subsidized Federal Family Education Loans	2004	4,436
84.032	Unsubsidized Federal Family Education Loans	2004	2,245
			<u>\$ 10,849</u>

Criteria: The *OMB Compliance Supplement* requires an institution properly calculate and determine the return of Title IV funds for all students that receive financial aid and either officially or unofficially withdraw.

Effect: The above University may not be consistent with special tests and provision regarding return of Title IV funds as specified by the *OMB Compliance Supplement*.

Recommendation: The above University should improve the methodology used to identify students who may be subject to return of Title IV fund calculations.

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Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota State Colleges and Universities Response:

The university agrees with the Auditor's recommendation and has already instituted steps to improve practices. The Academic and Student Affairs division will undertake follow up efforts.

Person Responsible: Roy Saigo, President of St. Cloud State University

Estimated Completion Date: Ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: Minnesota State University, Mankato

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.032	Federal Family Education Loans ("FFEL")
84.038	Federal Perkins Loans
84.063	Federal Pell Grant

Questioned Costs: \$587,905

Finding KDV-04-6 *Inadequate monitoring of satisfactory academic progress.*

Condition: Last year, Minnesota State University Mankato (Mankato) discovered a serious error relating to monitoring of satisfactory academic progress. In response, the U.S. Department of Education performed a focused program review relating to the financial responsibility of the Title IV Federal Student Financial Assistance Programs administered by Mankato, which resulted in findings related to monitoring of satisfactory progress for fiscal years 2001 through 2003. As a result of these issues, a tail remained in fiscal year 2004. MnSCU's internal auditors and management performed additional procedures on Mankato's fiscal 2004 Title IV expenditures and noted additional questioned costs of \$ 587,905. In December 2003, Mankato corrected the computer error that resulted in these issues.

The questioned costs are as follows:

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<u>Institution/ Time Period</u>	<u>CFDA #</u>	<u>Description</u>	(See Notes 1, 2) <u>Questioned Costs</u>
Minnesota State University, Mankato			
2004	84.063	Federal Pell Grant	\$ 137,208
2004	84.007	Federal Supplemental Educational Opportunity Grants	9,550
2004	84.038	Federal Perkins Loans	13,754
2004	84.032	Subsidized Federal Family Education Loans	223,979
2004	84.032	Unsubsidized Federal Family Education Loans	195,813
2004	84.032	Parent Federal Family Education Loans	7,601
			<u>\$ 587,905</u>

Note 1 – The questioned costs which resulted from a computer error for fiscal years 2001-2003 are currently under appeal with the USDOE on whether a liability exists for students who recovered academically.

Note 2 – The USDOE determination letter for fiscal years 2001-2003 calculated a loan liability based on a loss estimate. The loss estimate was based on Mankato's loan default rate plus interest. The questioned costs noted above are gross loan amounts. The estimated liability may be substantially lower than these gross amounts.

Criteria: The *OMB Compliance Supplement* requires an institution to monitor compliance with satisfactory academic progress policies and return of Title IV funds. These requirements are explained in more detail in the USDOE's SFA Handbook.

Effect: The above named University is not in compliance with the *OMB Compliance Supplement* and SFA Handbook.

Recommendation: Implement policies and procedures to appropriately monitor the Universities' compliance with the requirements of satisfactory academic progress policies and return of Title IV funds.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Minnesota State Colleges and Universities Response:

The university agrees with the Auditor's recommendation and will institute steps to improve practices. The Academic and Student Affairs division, working with the Office of Internal Auditing, will coordinate the effort and undertake follow up efforts.

Person Responsible: Richard Davenport, President of Mankato State University

Estimated Completion Date: Ongoing

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: Minnesota State Colleges and Universities

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.032 Federal Family Education Loans ("FFEL")
84.268 Federal Direct Student Loans ("FDSL")

Questioned Costs: \$12,551

Finding KDV-04-7 *Student awards exceeded program limits.*

Condition: Certain students received subsidized FFEL and FDSL loans in excess of permitted amounts from the following Colleges and Universities:

	<u>Number of Affected Students</u>	<u>Amount of Over Award</u>	<u>Description</u>
Century College	1	\$ 1,195	T
St. Paul College	1	4,930	D
Minnesota State University, Mankato	1	1,940	R
St. Cloud Technical College	1	1,273	T
Minnesota West Community and Technical College	1	1,273	T
St. Cloud State University	1	1,940	R
		<u>\$ 12,551</u>	

T – The student transferred from another institution during the academic year. Financial aid awarded by the previous institution was not considered in calculating financial aid at the destination institution. The student was awarded an excess amount of financial aid at the destination institution as a result.

D – The college erroneously duplicated a payment to the student. The student subsequently repaid the college for the amount of the erroneous disbursement via funding received from an unsubsidized loan.

R – Students' transcripts reflected excess credits for repeat courses or credits transferred from another institution, incorrectly increasing the status to Junior from Sophomore. Excess funds were awarded at Junior status.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Electronic file interrogation techniques were applied to the fiscal year 2004 Student Financial Assistance Cluster Program disbursements for the entire student population and identified a population of 12 subsidized loans and 116 unsubsidized loans which appeared to be potentially at risk of being awarded in excess of federal loan limits. A sample of 41 loans were tested, noting six exceptions.

Criteria: The OMB requires an institution properly calculate and determine an eligible student's financial aid award. The NSLDS is maintained in order to avoid overawards, and institutions are required to determine if students have already received their limit of FFEL loans through verification of any records in the NSLDS.

Effect: The above named Colleges and Universities are not in compliance with eligibility requirements regarding FFEL and FDSL loans.

Recommendation: The Colleges and Universities should ensure all students eligible for FFEL and FDSL loans have been verified through the NSLDS and that no awards have already been disbursed at another institution.

Minnesota State Colleges and Universities Response:

The colleges and universities agree with the Auditor's recommendation and will institute steps to improve practices. The Academic and Student Affairs division will undertake follow up efforts.

Person Responsible: Linda Baer, Senior Vice Chancellor for Academic and Student Affairs

Estimated Completion Date: June 30, 2005

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: St. Cloud State University

Federal Agency: U.S. Department of State

CFDA Number/Program Name:

19.424 Educational Partnerships Program

Questioned Costs: \$54,084

Finding KDV-04-8 *Ineligible costs charged to the program.*

Condition: Certain costs charged to the partnership program grant determined to be ineligible after review by the Office of Internal Audit.

Criteria: Grant requirements require specific eligibility for all costs charged to the grant.

Effect: The above University was not in compliance with the allowable costs of the grant.

Recommendation: The University should ensure only allowable costs are charged to the applicable grant.

Minnesota State Colleges and Universities Response:

The university agrees with the Auditor's recommendation and have taken steps to correct the charges and improve practices.

Person Responsible: Roy Saigo, President of St. Cloud State University

Estimated Completion Date: Complete

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Report KDV-04

State Agency: Anoka Technical College

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names:

84.007	Federal Supplemental Educational Opportunity Grant
84.032	Federal Family Education Loans ("FFEL")
84.033	Work Study
84.063	Federal Pell Grant

Questioned Costs: \$41,728 / \$22,732

Finding KDV-04-9 *Omitted items in published satisfactory academic progress policies.
Inconsistent calculation of return of Title IV funds.*

The U.S. Department of Education performed a program review relating to the financial responsibility of the Title IV Federal Student Financial Assistance Programs administered by Anoka Technical College ("Anoka"), which resulted in several preliminary findings, including consumer information, crime awareness, student files, administrative capability, verification, PELL disbursements, Return of Title IV funds, unmade return of funds, record retention, satisfactory academic progress, unreconciled accounting records and FFEL Loans.

Condition 1: The preliminary determination letter cited an issue relating to the satisfactory academic policy. Specifically, Anoka's satisfactory academic policy omitted the treatment of certain items. In response to the preliminary findings, the College has rewritten their satisfactory academic policy to address all required items. The College has responded to these findings. The possible questioned costs included in the response follows:

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

<u>Institution/ Time Period</u>	<u>CFDA #</u>	<u>Description</u>	(See Notes 1, 2) <u>Questioned Costs</u>
Anoka Technical College			
2004	84.063	Federal Pell Grant	\$ 15,378
2004	84.007	Federal Supplemental Educational Opportunity Grants	207
2004	84.032	Subsidized Federal Family Education Loans	11,461
2004	84.032	Unsubsidized Federal Family Education Loans	14,682
			<u>\$ 41,728</u>

Note 1 – The USDOE for other institutions has based the loan liability based on a loss estimate. The loss estimate has been based on default rates plus interest. The questioned costs noted above are gross loan amounts. The estimated liability may be substantially lower than these gross amounts.

Condition 2: Anoka Technical College has not consistently been performing the return of Title IV funds calculation. As a result, the following questioned costs relating to fiscal years 2003 and 2004 could be subject to refund to the U.S. Department of Education (“USDOE”) or to lenders.

A summary of these questioned costs by SFA Program is as follows:

<u>CFDA</u>	<u>Description</u>	<u>Time Period</u>	<u>Total</u>
84.063	Federal Pell Grant	2003-2004	\$ 9,655
84.032	Subsidized Federal Family Education Loans	2003-2004	11,678
84.032	Unsubsidized Federal Family Education Loans	2003-2004	1,399
			<u>\$ 22,732</u>

Criteria: The *OMB Compliance Supplement* requires an institution to monitor compliance with satisfactory academic progress policies and return of Title IV funds. These requirements are explained in more detail in the USDOE’s SFA Handbook.

Effect: Anoka Technical College is not in compliance with the *OMB Compliance Supplement* and SFA Handbook.

Minnesota Office of the Legislative Auditor
Schedule of Findings and Questioned Costs
Section III: Federal Program Audit Findings - Continued

Recommendation: Implement policies and procedures to appropriately monitor the Colleges' and Universities' compliance with the requirements of satisfactory academic progress policies and return of Title IV funds.

Condition 3: Anoka Technical College's satisfactory academic progress policy does not address the treatment of NC's, T's and Z's (non grade placeholder).

Criteria: The *OMB Compliance Supplement* requires an institution to establish and publish an academic progress policy. These requirements are explained in more detail in the SFA regulations.

Effect: Anoka's policy is not in compliance with the SFA regulations.

Recommendation: Ensure that Anoka's satisfactory academic progress policy addresses all of the requirements in the SFA Handbook. Implement policies and procedures to be used by the colleges and universities to monitor compliance with satisfactory academic progress requirements in accordance with SFA regulations.

Minnesota State Colleges and Universities Response:

The college agrees with the Auditor's recommendation and will institute steps to improve practices. The Academic and Student Affairs division, working with the Office of Internal Auditing, will coordinate the effort and undertake follow up efforts.

The college agrees with the Auditor's recommendation and will institute steps to improve practices. The Academic and Student Affairs division, working with the Office of Internal Auditing, will coordinate the effort and undertake follow up efforts.

Person Responsible: Anne Weyandt, President of Anoka Technical College

Estimated Completion Date: Ongoing

STATE OF MINNESOTA
STATUS OF PRIOR STATEWIDE FINANCIAL STATEMENT AUDIT FINDINGS
AS OF DECEMBER 1, 2004

STATE AGENCY	PROGRAM NAME	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
PRIMARY GOVERNMENT						
Administration	Information Technology	Inadequate security over electronic libraries that house critical programs	1	04-14	1	03
Administration	Statewide Data Access	Inadequate control of powerful ACF2 privileges	1	02-26	2	02
Administration	Intertechnologies Group	Costs not allocated to the proper fiscal year	2	02-05	1	01
Administration	Materials Management Coop Purchasing	Inadequate control over computer system security	1	02-05	2	01
Education	Maximum Effort School Loan Fund	Inaccurate financial statements for non major fund-required adjustment	1	04-12	3	03
Education	Grant Payment Processing	Duplicate payment of federal grants	1	04-12	4	03
Education	Financial Statement Preparation	Accounting system understated liabilities for financial reporting	1	04-12	5	03
Employment & Econ Development	Unemployment Insurance Fund	Inaccurate financial statements required adjustment	1	04-13	2	03
Finance	State Agency Spending Authority Controls	Inadequate controls to prevent unauthorized appropriation transfers	1	04-01	1	03
Finance	State Agency Spending Authority Controls	Unnecessary clearance to selected appropriation accounts	1	04-01	2	03
Finance	Financial Statement Preparation	Erroneous information submitted by state agencies for financial reporting	1	04-18	1	03
Finance	Financial Statement Preparation	Lack of assurance that agency fund financial statements are accurate	1	04-18	2	03
Finance	Financial Statement Preparation	Accounting system understated liabilities in the financial statements	1	04-18	3	03
Health	Financial Statement Preparation	Incorrect recording of contract payments into the accounting system	1	04-19	2	03
Health	Financial Statement Preparation	Improper recognition of certain grant expenditures for financial reporting	2	04-19	4	03
Human Services	Health Care Programs	Medical Assistance funds used for services not allowed	2	04-11	1	03
Human Services	Information Technology	Inadequate protection of one account with clearance to production data	2	04-11	8	03
Human Services	MAXIS Data Integrity	No periodic validation of effectiveness of MAXIS security controls	1	02-53	1	02
Human Services	MAXIS Data Integrity	Inappropriate security clearances to MAXIS	2	02-53	2	02
Human Services	MAXIS Data Integrity	Inadequate control and security over scheduled batch processing	2	02-53	3	02
Iron Range Resources and Rehab	NE MN Economic Protection	Inadequate monitoring of venture capital financial activity	2	02-66	6	02
MN State Colleges & Universities	Financial Management	Insufficient depository insurance and collateral at some institutions	1	D&T	3	03
MN State Colleges & Universities	Cash	Insufficient depository insurance and collateral at some institutions	1	D&T	4	02
MN State Colleges & Universities	Financial Statement Preparation	Uncollateralized or under-collateralized cash deposits/investments	1	D&T	4	01
Natural Resources	License Revenue	No authority to issue refunds and inadequate control over refunds	2	02-65	2	02
Natural Resources	License Revenue	No verification of overall license receipt reasonableness	1	02-65	4	02
Public Employees Retirement	Computer System Security	Ineffective security program	1	02-62	1	02
Public Employees Retirement	Computer System Security	Inadequate security of databases	1	02-62	4	02

*CATEGORY OF CORRECTIVE ACTION TAKEN

1 - Findings have been fully corrected.

2 - Findings not corrected or only partially corrected.

3 - Corrective action taken is significantly different than previously reported.

4 - Audit findings are no longer valid or do not warrant further action.

For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

STATE OF MINNESOTA
STATUS OF PRIOR STATEWIDE FINANCIAL STATEMENT AUDIT FINDINGS
AS OF DECEMBER 1, 2004

STATE AGENCY	PROGRAM NAME	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
PRIMARY GOVERNMENT - continued						
Public Safety	Financial Statement Preparation	Erroneous determination of accrued liabilities	1	04-10	1	03
Revenue	Individual Income Tax Processing Controls	Inadequate overall security programs	2	04-16	1	03
Revenue	Individual Income Tax Processing Controls	Inadequate access request procedures	2	04-16	2	03
Revenue	Individual Income Tax Processing Controls	Ineffective procedures for modifying and revoking security clearances	2	04-16	3	03
Revenue	Individual Income Tax Processing Controls	Weak controls to confirm the identity of system users	2	04-16	4	03
Revenue	Individual Income Tax Processing Controls	Excessive clearance to individual income tax systems and data	2	04-16	5	03
Revenue	Individual Income Tax Processing Controls	Excessive points of access into the department's private network	1	04-16	6	03
Revenue	Individual Income Tax Processing Controls	Unnecessary and insecure services being run	1	04-16	7	03
Revenue	Individual Income Tax Processing Controls	Untimely performance of important system maintenance procedures	2	04-16	8	03
Revenue	Individual Income Tax Processing Controls	Inadequate monitoring of systems	2	04-16	9	03
Transportation	Financial Statement Preparation	Inadequate controls to ensure accurate reporting of capital outlay	2	04-17	1	03
DISCRETELY PRESENTED COMPONENT UNITS						
Metropolitan Council	Financial Statement Preparation	Need to improve timeliness and accuracy of financial reporting process	1	OSA	01-3	03
Metropolitan Council	Financial Statement Preparation	Inadequate year-end financial statement reporting process	1	OSA	01-3	03
MN Part. Against Tobacco	Financial Management	Inadequate internal accounting controls and separation of duties	2	EB		03

***CATEGORY OF CORRECTIVE ACTION TAKEN**

1 - Findings have been fully corrected.

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For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2004

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State of Minnesota

Financial and Compliance Report on Federally Assisted Programs

Fiscal Year Ended June 30, 2004

Status of Prior Statewide Financial Statement Audit Findings Supplemental Information

Below are explanations for findings not fully corrected or the corrective action taken differs significantly from the previously stated corrective action plan.

Report 02-05: Minnesota Department of Administration

Finding 1: The department did not consistently allocate certain InterTechnologies Group (ITG) costs to the correct fiscal year.

Response: ITG accomplishments include the following tasks to provide more reliable accounts payable, communications expense, prepaid expense, and capital asset data:

- Analyzed the underlying causes for "date" errors noted in the October 2004 Quality Assurance Review results.
- Received Financial Management and Reporting (FMR) approval to split two types of expenditure transactions between fiscal years: (1) only those telephone invoices that are \$1,000 or more, and (2) prepayment transactions that span multiple years only when the portion that relates to a future period exceeds \$10,000.
- Obtained Internal Audit's input on draft policies and procedures for *Recording Transactions in the Correct Accounting Period*.
- Reassigned staff temporarily in the Business Services/Accounts Payable unit to place additional resources on bringing this audit issue to closure.

Continued ITG efforts to resolve this audit issue and to prevent its recurrence include:

- Establishing orders in MAPS on a timely basis to enable payment processors to enter transaction dates correctly in MAPS.
- Finalizing and implementing division policies and procedures for *Recording Transactions in the Correct Accounting Period*.
- Executing and complying with the financial statement agreement between ITG and FMR.
- Cooperating with FMR in its fiscal-year-end transaction analysis.
- Making improvements to track prepaid expenses.

- Improving capital asset record-keeping measures.

Person Responsible: Julie Talbott, ITG Administrative Management Director

Estimated Completion Date: A March 31, 2005, is the target date for finalizing the policies and procedures, and July 30, 2005, is the target date for completion of all other activities.

Report 02-65: Minnesota Department of Natural Resources (DNR)

Finding 2: The department issued refunds without statutory authority and did not have adequate controls in place to ensure that all refunds issued were appropriate.

Response: During the 2004 legislative session the Department of Natural Resources sought and received authority to grant refunds under specific circumstances for game and fish license. The authority is found in the Laws of 2004, Chapter 255, Section 28, which amended Minnesota Statutes section 97A.311. In addition, only two individuals within the licensing unit are now authorized to approve refunds.

The department is currently pursuing an initiative for the upcoming legislative session to authorize refunds of registration or titling fees for recreational vehicles under specific circumstances.

Person Responsible: Karen Beckman, License Bureau Administrator

Estimated Completion Date: End of the 2005 legislative session.

Report 02-66: Minnesota Iron Range Resources and Rehabilitation Agency (IRRRA)

Finding 6: The agency did not adequately monitor the venture capital fund's use of Northeast Minnesota Economic Protection Trust Funds nor curtail certain financial activity that did not comply with the financing agreement or statutes.

Response: IRRRA proposed to amend the agreements with Iron Range Ventures (IRV) to correct the alleged deficiency in the audit finding. IRV was willing to cooperate in any way that they could short of changing the character of the agreements that were negotiated. The documents that were executed by IRV and the agency were forwarded to the Department of Administration. However, the Department of Administration has not yet executed the documents, instead asking the agency to make one last effort to negotiate more prescriptive language. Agency staff has met with IRV to discuss further revision of the documents. IRV is not agreeable to further revisions to the signed documents.

Person Responsible: Mathew Sjoberg, Loan Officer Supervisor

Estimated Completion Date: Ongoing

Report 04-16: Minnesota Department of Revenue

Finding 1: The department's overall security program lacks important ingredients.

Response: Information technology currently implemented or being considered within the Department of Revenue is being evaluated for risk, and measures are being identified and documented in security baselines. Metrics are also being established to evaluate the effectiveness of those measures. The department is currently focusing its efforts on addressing the control issues identified in the audit.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: June 30, 2005

Report 04-16: Minnesota Department of Revenue

Finding 2: Access request procedures are weak in several respects.

Response: Information technology currently implemented or being considered within the Department of Revenue is being evaluated for risk, and measures are being identified and documented in security baselines. Metrics are also being established to evaluate the effectiveness of those measures. The department is currently focusing its efforts on addressing the control issues identified in the audit.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: June 30, 2005

Report 04-16: Minnesota Department of Revenue

Finding 3: Procedures for modifying and revoking security clearances are not effective.

Response: Information technology currently implemented or being considered within the Department of Revenue is being evaluated for risk, and measures are being identified and documented in security baselines. Metrics are also being established to evaluate the effectiveness of those measures. The department is currently focusing its efforts on addressing the control issues identified in the audit.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: June 30, 2005

Report 04-16: Minnesota Department of Revenue

Finding 4: Controls used to confirm the identity of system users were weak in several respects.

Response: Information technology currently implemented or being considered within the Department of Revenue is being evaluated for risk, and measures are being identified and documented in security baselines. Metrics are also being established to evaluate the effectiveness of those measures. The department is currently focusing its efforts on addressing the control issues identified in the audit.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: June 30, 2005

Report 04-16: Minnesota Department of Revenue

Finding 5: Many people had excessive clearance to individual income tax systems and data.

Response: The department has committed to revamp access control processed within the agency. A cross-agency team began redefining the agency business requirements for access control processes. Once those requirements are defined, the appropriate tools will be acquired and procedural changes made to meet those requirements and address the access control issues identified in the audit. The department is also committed to adding permanent staffing to perform access control functions and monitoring of activity.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: June 30, 2005

Report 04-16: Minnesota Department of Revenue

Finding 8: The department did not promptly perform important system maintenance procedures.

Response: The process of defining the pertinent security metrics for each technology implemented within the agency has been initiated and additional resources have been allocated to perform monitoring activity.

Person Responsible: Jerry Hanson, Information Systems Division

Estimated Completion Date: June 30, 2005

Report 04-16: Minnesota Department of Revenue

Finding 9: The department does not adequately monitor its systems.

Response: The process of defining the pertinent security metrics for each technology implemented within the agency has been initiated and additional resources have been allocated to perform monitoring activity.

Person Responsible: Bruce Showel, Information Security

Estimated Completion Date: June 30, 2005

Report 04-17: Minnesota Department of Transportation

Finding 1: The Department of Transportation did not ensure the accuracy of the infrastructure and right-of-way capital outlay expenditures on the state's financial statements.

Response: The Department of Transportation has begun to do quarterly reviews of the data input on projects for complete coding and accuracy. Any missing codes will be immediately brought to the attention of the operations personnel for resolution. The office has also begun an analysis of MAPS expenditure data to ensure its accuracy and will report needed adjustments to the Department of Finance.

Person Responsible: Kevin Gray, Finance and Administration Division Director

Estimated Completion Date: March 2004 and ongoing

Report 04-19: Minnesota Department of Health

Finding 4: The Department of Health did not properly recognize certain grant expenditures for financial reporting.

Response: The Department of Health has an electronic reporting system for local agencies to report expenditures. The current system collects data on the fiscal year of the grant, which is August to July. This reporting system is being modified to collect data on June 30, instead of May 31. This change will allow reporting the amount of cash that has not been spent by the end of the state fiscal year.

Person Responsible: Darcy Miner, Deputy Commissioner

Estimated Completion Date: This report should be modified in time to collect data on June 30, 2005.

Report EB: Minnesota Partnership for Action Against Tobacco (MPAAT)

Finding: Due to a limited number of personnel, adequate separation of duties may not be possible for adequate internal accounting controls.

Response: MPAAT is aware of this condition. Supervision and review of accounting policies, procedures, and financial information will be used to prevent and detect errors and irregularities.

Person Responsible: Paul Orman, Director of Finance

Estimated Completion Date: Ongoing

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL PROGRAM AUDIT FINDINGS
AS OF JUNE 30, 2004

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
U. S. Department of Agriculture							
10.551	Food Stamps	Human Services	No periodic validation of effectiveness of MAXIS security controls	1	02-53	1	02
10.551	Food Stamps	Human Services	Inappropriate security clearances to MAXIS	2	02-53	2	02
10.551	Food Stamps	Human Services	Inadequate control and security over scheduled batch processing	2	02-53	3	02
10.551	Food Stamps	Human Services	Inadequate controls over certain high-risk eligibility transactions	1	04-11	3	03
10.551	Food Stamps	Human Services	Inadequate protection of one account with clearance to production data	2	04-11	8	03
10.553	School Breakfast Program	Education	Used wrong meal counts and/or rates (resulted in under-reimbursement)	1	04-12	7	03
10.555	National School Lunch Program	Education	Used wrong meal counts and/or rates	1	04-12	7	03
10.555	National School Lunch Program	Education	Lack of support for reported state match figures	1	04-12	9	03
10.556	Special Milk Program for Children	Education	Used wrong meal counts and/or rates (resulted in under-reimbursement)	1	04-12	7	03
10.557	Special Nutrition/Women/Infants/Children	Health	WIC expenditures charged to the wrong federal fiscal year	4	03-08	1	02
10.557	Special Nutrition/Women/Infants/Children	Health	Information on retractive eligibility changes not requested	1	04-19	1	03
10.558	Child and Adult Care Food Program	Education	Used wrong meal counts and/or rates (resulted in under-reimbursement)	1	04-12	7	03
10.559	Summer Food Service Program for Children	Education	Used wrong meal counts and/or rates (resulted in under-reimbursement)	1	04-12	7	03
10.573	School Lunch Provisions 2 & 3	Education	Unrelated costs charged to the grant	1	03-58	1	03
10.574	Team Nutrition Grants	Education	Unrelated costs charged to the grant	1	03-58	2	03
U. S. Department of Justice							
16.523	Juvenile Accountability Incentive Block Grant	Employment & Econ Development	Inaccurate determination of federal expenditures and reporting of match	1	04-13	1	03
U. S. Department of Labor							
17.258	Workforce Investment Act-Adult	Employment & Econ Development	Inaccurate reporting of expenditures on federal financial status report	1	04-13	1	03
17.259	Workforce Investment Act- Youth	Employment & Econ Development	Inaccurate reporting of expenditures on federal financial status report	1	04-13	1	03
U. S. Department of Transportation							
20.106	Airport Improvement	Transportation	Federal funds were over obligated	1	04-17	3	03
20.205	Highway Planning & Construction	Transportation	Project oversight procedures need improvement	2	04-17	2	03
Social Security Administration							
96.001	Social Security- Disability Insurance	Employment & Econ Development	Contract retainage not withheld as called for in contracts	1	04-13	3	03

*CATEGORY OF CORRECTIVE ACTION TAKEN

- | | |
|---|--|
| 1 - Findings have been fully corrected. | 3 - Corrective action taken is significantly different than previously reported. |
| 2 - Findings not corrected or only partially corrected. | 4 - Audit findings are no longer valid or do not warrant further action. |
- For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL PROGRAM AUDIT FINDINGS
AS OF JUNE 30, 2004

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
U. S. Department of Education							
84.007	Supplemental Education Opportunity Grant	Anoka TC	Inadequate restriction to computerized systems	2	01-50	1	01
84.007	Supplemental Education Opportunity Grant	Anoka Ramsey CC	Inadequate restriction to computerized systems	2	01-46	2	01
84.007	Supplemental Education Opportunity Grant	MN State Colleges & Universities	Satisfactory academic policies missing requirements	2	DT-03	1	03
84.007	Supplemental Education Opportunity Grant	MN State Colleges & Universities	Return of Title IV funds not calculated or data omitted	1	DT-03	3	03
84.007	Supplemental Education Opportunity Grant	MN State Colleges & Universities	Not monitoring satisfactory progress or return of Title IV funds	1	DT-03	4	03
84.007	Supplemental Education Opportunity Grant	St. Cloud State U	Inadequate tracking between computerized systems	2	01-20	7	01
84.010	Title 1- Grants to Local Educational Agencies	Education	Improper allocation of funds to subrecipients	1	04-12	2	03
84.010	Title 1- Grants to Local Educational Agencies	Education	Overpayment to Subrecipients	1	04-12	2	03
84.011	Migrant Education-Basic State Grant	Education	Improper recording of liability dates on MAPS	1	03-15	6	02
84.027	Special Education-State Grants	Education	Improper recording of liability dates on MAPS	1	03-15	6	02
84.027	Special Education- State Grants	Education	Improper allocation of funds to subrecipients	1	049-12	8	03
84.032	Federal Family Education Loan Program	Anoka TC	Inadequate restriction to computerized systems	2	01-50	1	01
84.032	Federal Family Education Loan Program	Anoka Ramsey CC	Inadequate restriction to computerized systems	2	01-46	2	01
84.032	Federal Family Education Loan Program	MN State Colleges & Universities	Satisfactory academic policies missing requirements	2	DT-03	1	03
84.032	Federal Family Education Loan Program	MN State Colleges & Universities	Changes in student information not reported in a timely manner	2	DT-03	2	03
84.032	Federal Family Education Loan Program	MN State Colleges & Universities	Return of Title IV funds not calculated or data omitted	1	DT-03	3	03
84.032	Federal Family Education Loan Program	MN State Colleges & Universities	Not monitoring satisfactory academic progress or return of Title IV funds	1	DT-03	4	03
84.032	Federal Family Education Loan Program	MN State Colleges & Universities	Loans in excess of permitted amounts	1	DT-03	5	03
84.032	Federal Family Education Loan Program	St. Cloud State U	Inadequate tracking between computerized systems	2	01-20	7	01
84.033	Federal Work-Study	Anoka Hennepin TC	Inadequate restriction to computerized systems	2	01-50	1	01
84.033	Federal Work-Study	Anoka Ramsey CC	Inadequate restriction to computerized systems	2	01-46	2	01
84.033	Federal Work-Study	MN State Colleges & Universities	Satisfactory academic policies missing requirements	2	DT-03	1	03
84.033	Federal Work-Study	St. Cloud State U	Inadequate tracking between computerized systems	2	01-20	7	01
84.038	Federal Perkins Loan	Anoka Ramsey CC	Inadequate restriction to computerized systems	2	01-46	2	01
84.038	Federal Perkins Loan	MN State Colleges & Universities	Satisfactory academic policies missing requirements	2	DT-03	1	03
84.038	Federal Perkins Loan	MN State Colleges & Universities	Changes in student information not reported in a timely manner	2	DT-03	2	03
84.038	Federal Perkins Loan	MN State Colleges & Universities	Return of Title IV funds not calculated or data omitted	1	DT-03	3	03
84.038	Federal Perkins Loan	MN State Colleges & Universities	Not monitoring satisfactory academic progress or return of Title IV funds	1	DT-03	4	03
84.038	Federal Perkins Loan	St. Cloud State U	Inadequate tracking between computerized systems	2	01-20	7	01
84.063	Federal Pell Grant	Anoka TC	Inadequate restriction to computerized systems	2	01-50	1	01
84.063	Federal Pell Grant	Anoka Ramsey CC	Inadequate restriction to computerized systems	2	01-46	2	01
84.063	Federal Pell Grant	MN State Colleges & Universities	Satisfactory academic policies missing requirements	2	DT-03	1	03
84.063	Federal Pell Grant	MN State Colleges & Universities	Changes in student information not reported in a timely manner	2	DT-03	2	03
84.063	Federal Pell Grant	MN State Colleges & Universities	Return of Title IV funds not calculated or data omitted	1	DT-03	3	03
84.063	Federal Pell Grant	MN State Colleges & Universities	Not monitoring satisfactory academic progress on return of Title IV funds	1	DT-03	4	03
84.063	Federal Pell Grant	St. Cloud State U	Inadequate tracking between computerized systems	2	01-20	7	01
84.186	Safe and Drug-Free Schools and Communities Education		Overpayment to subrecipients	1	04-12	2	03
84.268	Federal Direct Student Loans	MN State Colleges & Universities	Satisfactory academic policies missing requirements	2	DT-03	1	03
84.268	Federal Direct Student Loans	MN State Colleges & Universities	Changes in student information not reported in a timely manner	2	DT-03	2	03
84.268	Federal Direct Student Loans	MN State Colleges & Universities	Loans in excess of permitted amounts	1	DT-03	5	03
84.281	Eisenhower Professional Development Grants	Education	Overpayment to subrecipients	1	04-12	2	03

*CATEGORY OF CORRECTIVE ACTION TAKEN

1 - Findings have been fully corrected.

2 - Findings not corrected or only partially corrected.

3 - Corrective action taken is significantly different than previously reported.

4 - Audit findings are no longer valid or do not warrant further action.

For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

STATE OF MINNESOTA
STATUS OF PRIOR FEDERAL PROGRAM AUDIT FINDINGS
AS OF JUNE 30, 2004

CFDA NO.	PROGRAM NAME	STATE AGENCY	IDENTIFIED PROBLEM IN PRIOR SINGLE AUDIT REPORT	CATEGORY OF CORRECTIVE ACTION TAKEN*	RPT NO.	FIND NO.	AUDIT REPORT FISCAL YR
U.S. Department of Education -continued							
84.282	Charter Schools	Education	Failure to provide state match	1	04-12	1	03
84.282	Charter Schools	Education	Administrative contracts not executed before work begun	1	04-12	4	03
84.298	Innovative Education Program Strategies	Education	Overpayment to subrecipients	1	04-12	2	03
84.318	Education Technology State Grants	Education	Overpayment to subrecipients	1	04-12	2	03
84.365	English Language Acquisition Grants	Education	Overpayment to subrecipients	1	04-12	2	03
93.364	Nursing Student Loans	MN State Colleges & Universities	Satisfactory academic policies missing requirements	2	DT-03	1	03
U. S. Department of Health and Human Services							
93.283	CDC Investigations and Technical Assistance	Health	Advances to community health boards greater than board expenditures	1	04-19	3	03
93.283	CDC Investigations and Technical Assistance	Health	Inadequate management of fixed assets	2	04-19	5	03
93.558	Temporary Assistance for Needy Families	Human Services	Inadequate controls over certain high-risk eligibility transactions	1	04-11	3	03
93.558	Temporary Assistance for Needy Families	Human Services	Untimely resolution of income discrepancies identified by IEVS	2	04-11	4	03
93.558	Temporary Assistance for Needy Families	Human Services	Inadequate protection of one account with clearance to production data	2	04-11	8	03
93.558	Temporary Assistance for Needy Families	Human Services	No periodic validation of effectiveness of MAXIS security controls	1	02-53	1	02
93.558	Temporary Assistance for Needy Families	Human Services	Inappropriate security clearances to MAXIS	2	02-53	2	02
93.558	Temporary Assistance for Needy Families	Human Services	Inadequate control and security over scheduled batch processing	2	02-53	3	02
93.558	Temporary Assistance for Needy Families	Human Services	Untimely resolution of income discrepancies identified by IEVS	1	03-11	2	02
93.558	Temporary Assistance for Needy Families	Human Services	Untimely resolution of income discrepancies identified by IEVS	1	02-15	1	01
93.658	Foster Care	Human Services	Salary allocations not sufficiently documented	2	04-11	2	03
93.667	Social Services Block	Human Services	Salary allocations not sufficiently documented	2	04-11	2	03
93.778	Medical Assistance	Human Services	MA funds used for services not allowed	2	04-11	1	03
93.778	Medical Assistance	Human Services	Inadequate controls over certain high-risk eligibility transactions	1	04-11	3	03
93.778	Medical Assistance	Human Services	Untimely resolution of income discrepancies identified by IEVS	2	04-11	4	03
93.778	Medical Assistance	Human Services	Inadequate separation of duties over receipt collections	1	04-11	6	03
93.778	Medical Assistance	Human Services	Required number of nursing home audits not performed	1	04-11	7	03
93.778	Medical Assistance	Human Services	Untimely resolution of income discrepancies identified by IEVS	1	03-11	2	02
93.778	Medical Assistance	Human Services	Inadequate separation of duties over receipt collections	1	03-11	5	02
93.778	Medical Assistance	Human Services	Untimely resolution of income discrepancies identified by IEVS	1	02-15	1	01
93.940	HIV Prevention Activities- Health Departments	Health	Subgrantee reimbursements for undocumented costs	4	03-57	2	03
93.940	HIV Prevention Activities- Health Departments	Health	Subgrantee noncompliance with grant contract requirements	4	03-57	3	03

*CATEGORY OF CORRECTIVE ACTION TAKEN

1 - Findings have been fully corrected.

2 - Findings not corrected or only partially corrected.

3 - Corrective action taken is significantly different than previously reported.

4 - Audit findings are no longer valid or do not warrant further action.

For Categories 2-3, reference Rpt No and Find No on the Status of Statewide Audit Findings supplemental information for more detail.

State of Minnesota
Financial and Compliance Report on Federally Assisted Programs
Fiscal Year Ended June 30, 2004

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State of Minnesota

Financial and Compliance Report on Federally Assisted Programs

Fiscal Year Ended June 30, 2004

**Status of Prior Federal Program Audit Findings
Supplemental Information**

Below are explanations for findings not fully corrected or the corrective action taken differs significantly from the previously stated corrective action plan.

Report 01-20: Minnesota State Colleges and Universities (MnSCU)

– St. Cloud State University

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names: 84.007 Supplemental Education Opportunity Grant
84.032 Federal Family Education Loan Program
84.033 Federal Work-Study
84.038 Federal Perkins Loan
84.063 Federal Pell Grant

Finding 7: The university does not produce reports comparing ISRS financial aid system award payments and MnSCU accounting system disbursements.

Response: The university has completed its analysis for fiscal years 2001, 2002, and 2003, and identified adjustments of approximately \$270,000 that it needs to make. The university continues work to identify possible discrepancies for fiscal years 1998, 1999, 2000 and 2004.

Person Responsible: Roy Saigo, President St. Cloud State University

Estimated Completion Date: June 30, 2005

Report 01-46: Minnesota State Colleges and Universities (MnSCU)

– Anoka Ramsey Community College

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names: 84.007 Supplemental Education Opportunity Grant
84.032 Federal Family Education Loan Program
84.033 Federal Work Study
84.038 Federal Perkins Loan
84.063 Federal Pell Grant

Finding 2: The college did not adequately limit access to its computerized business systems.

Response: Access incompatibilities have been corrected for certain functions. The Anoka Ramsey College Director of Fiscal Services and Auxiliary Services is reviewing the effectiveness of the detective controls related to cashiering.

Person Responsible: Patrick Johns, President Anoka Ramsey Community College

Estimated Completion Date: June 30, 2005

**Report 01-50: Minnesota State Colleges and Universities (MnSCU)
– Anoka Technical College**

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names: 84.007 Supplemental Education Opportunity Grant
84.032 Federal Family Education Loan Program
84.033 Federal Work-Study
84.063 Federal Pell Grant

Finding 1: The college did not adequately restrict certain employees' access to its computerized business systems.

Response: Access incompatibilities have been corrected for certain job functions. The Anoka Technical College Accounting Manager is researching ISRS reports to provide adequate detective controls related to cashiering.

Person Responsible: Anne Weyandt, President Anoka Technical College

Estimated Completion Date: June 30, 2005

Report 02-53: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture

CFDA Numbers/Program Names: 10.551 Food Stamps
93.558 Temporary Assistance to Needy Families

Finding 2: Many employees and contractors had inappropriate security clearances.

Response: The Department of Human Services has conducted the initial security clearances and implemented annual re-certifications for all MAXIS users. Based on this work, they need to develop new groups and implement/change security rules.

Person Responsible: Kate Wulf, Director, MAXIS Division

Estimated Completion Date: March 31, 2005

Report 02-53: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture

CFDA Numbers/Program Names: 10.551 Food Stamps
93.558 Temporary Assistance to Needy Families

Finding 3: Computer programs used for scheduled batch processing were not properly controlled or secured.

Response: The Department of Human Services initially modified the batch control procedures to reduce the department's risk. Currently, they are planning to add other control features to further reduce exposure.

Person Responsible: Kate Wulf, Director, TSS Division

Estimated Completion Date: March 31, 2005

Report 04-11: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name: 93.778 Medical Assistance

Finding 1: The Department of Human Services used Medical Assistance funds for unallowable services.

Response: The department has paid the federal government back approximately one-half of the estimated overpayment of federal funds. The department anticipates issuing a report at the beginning of fiscal year 2005 that will include the remaining claims for non-allowed activities and costs. This report will also include claims with retroactive changes since the last report was run. Estimated completion date is March 31, 2005.

The department will implement an annual process to identify chemical dependency claims with retroactive Medical Assistance eligibility. A report will be sent to counties requesting that individuals, for whom those claims were made, be moved off of Medical Assistance for the time period that they were ineligible.

Person Responsible: Donald Eubanks, Director, Chemical Health Division

Estimated Completion Date: June 30, 2005

Report 04-11: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Numbers/Program Names: 93.658 Foster Care
93.667 Social Services Block

Finding 2: The Department of Human Services did not comply with federal regulations when allocating salaries to some federal programs.

Response: The Department of Human Services still needs to assess the proper distribution method for the salaries of three employees.

Person Responsible: Phil Ohman, Financial Management Division

Estimated Completion Date: March 31, 2005

Report 04-11: Minnesota Department of Human Services

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name: 93.558 Temporary Assistance for Needy Families

Finding 4: The department should work with the county social service agencies to resolve Income Eligibility Verification System (IEVS) discrepancies in a timely manner.

Response: The department continues to monitor the progress of Hennepin and Ramsey counties in addressing their backlog of overdue matches. As our two largest counties, they account for the largest number of matches and overdue matches. The department is in the process of identifying additional counties that are struggling and need technical assistance.

As part of Food Support Management Evaluations in 32 counties, each of these counties is being provided information on how they are doing with IEVS matches.

During the exit conference with county management, the reviewer goes over the information and the importance of resolving matches timely. Reviewers are also collecting best practices which will be shared with all counties.

The department is continuing IEVS training, by region, for all counties.

Person Responsible: Sally Fashant, Program Admin. Director

Estimated Completion Date: June 30, 2005

Report 04-11: Minnesota Department of Human Services

Federal Agency: U.S. Department of Agriculture

CFDA Numbers/Program Names: 10.551 Food Stamps
93.558 Temporary Assistance to Needy Families

Finding 8: One account with clearance to some production data was not properly protected.

Response: Intertech and department staff have agreed on how best to structure computer programs to eliminate the need to store unencrypted passwords. Implementing the solution requires analysis, changes to computer programs, and testing by the state and by the state's EBT vendor "eFunds".

The department has completed analysis and started programming the system changes. Negotiations are underway with the vendor about costs and implementation of changes from the vendor's side.

Department security staff is working with Intertech staff to modify existing groups and rules and create new ones that tailor access to meet the minimum business requirements. This is a large project and changes are being implemented in steps.

Step 1 – The group originally intended for Help Desk staff included staff who were associated with Help Desk but who had slightly different access needs. Non Help Desk staff have been removed from this group and moved to a newly created group to meet their needs.

Three staff have been removed from another group and their needs are being met through the data warehouse. Analysis is still being done on the remaining staff in that group.

Step 2 – Dataset Rules for the above groups are being re-evaluated for changes.

Person Responsible: Kate Wulf, Director, TSS Division

Estimated Completion Date: June 30, 2005

Report 04-17: Minnesota Department of Transportation

Federal Agency: U.S. Department of Transportation

CFDA Number/Program Name: 20.205 Highway Planning and Construction

Finding 2: The department should improve certain project oversight procedures.

Response: The Director of the Engineering Services Division through the Office of Materials will work with District Operations staff to continue training, modifying specifications and strengthening project oversight to ensure compliance with federal and state requirements.

Persons Responsible: Julie Skallman, State Aid for Local Transportation Director
Richard Stehr, Engineering Services Division Director
Robert Winter, District Operations Division Director

Estimated Completion Date: March 2004 and ongoing

Report 04-19: Minnesota Department of Health

Federal Agency: U.S. Department of Health and Human Services

CFDA Number/Program Name: 93.283 CDC Investigations and Technical Assistance

Finding 5: The Department of Health did not adequately manage its fixed assets.

Response: The Department of Health is still working on a new material management system that includes modifications for fixed asset reporting. This system should be up and running prior to the end of the state fiscal year.

Person Responsible: Darcy Miner, Deputy Commissioner

Estimated Completion Date: Prior to June 30, 2005

Report DT-03: Minnesota State Colleges and Universities (MnSCU)

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names: 84.007 Supplemental Education Opportunity Grant
84.032 Federal Family Education Loan Program
84.033 Federal Work-Study
84.038 Federal Perkins Loan
84.063 Federal Pell Grant
84.268 Federal Direct Student Loans
93.364 Nursing Student Loans

Finding 1: Certain colleges and universities omitted items within their published satisfactory academic progress policy and as noted in the December 11, 2003, letter to the U.S. Department of Education.

Response: The Office of the Chancellor established an ad hoc task force to develop a new board policy and procedure regarding satisfactory academic progress for financial aid recipients. The board approved this new policy in March 2004 and the Chancellor approved the new procedure shortly thereafter. Most colleges and universities revised their satisfactory academic progress policies to comply with the new board policy and procedure. Four institutions have not yet modified their institutional policies: Ridgewater College, Minnesota State Community and Technical College (MSCTC), Minnesota State University (MSU), Mankato and MSU, Moorhead. The Office of the Chancellor has developed a new procedure that should be released

in February 2005. The three institutions should be able to use this new procedure to prepare an institutional satisfactory academic progress policy that complies with federal regulations.

Persons Responsible: Doug Allen, President Ridgewater College
Ken Peeders, President MSCTC
Richard Davenport, President MSU, Mankato
Roland Barden, President MSU, Moorhead

Estimated Completion Date: June 2005

Report DT-03: Minnesota State Colleges and Universities (MnSCU)

Federal Agency: U.S. Department of Education

CFDA Numbers/Program Names: 84.032 Federal Family Education Loan Program
84.038 Federal Perkins Loan
84.063 Federal Pell Grant
84.268 Federal Direct Student Loans

Finding 2: Certain colleges and universities did not report changes in student information to the National Student Loan Data System clearinghouse within the required deadlines through submission of student status confirmation reports.

Response: St. Cloud Technical College recently implemented a new procedure that resolved this finding. Anoka Technical College is in the process of implementing a new master calendar for financial aid processing. When implemented, the master calendar is expected to resolve this finding for them.

Person Responsible: Anne Weyandt, President Anoka Technical College

Estimated Completion Date: April 15, 2005

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