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STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Human Services State Operated Services Division

Internal Controls and Compliance Audit

July 2010 through December 2012

April 4, 2014 **Report 14-12**

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State of Minnesota • James Nobles, Legislative Auditor

April 4, 2014

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Legislative Audit Commission

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Lucinda Jesson, Commissioner
Department of Human Services

This report presents the results of our internal controls and compliance audit of selected financial activities of the Department of Human Services' State Operated Services Division for the period July 1, 2010, through December 31, 2012.

The results of the audit were discussed with the staff from the Department of Human Services' State Operated Services Division on March 19, 2014. This audit was conducted by Dave Poliseno, CPA (Audit Manager) and Tracy Gebhard, CPA (Auditor-in-Charge), assisted by auditors Jordan Bjonfald, CPA, Daphne Fabiano, Sandy Ludwig, and Emily Wiant.

We received the full cooperation from the staff of the Department of Human Services' State Operated Services Division while performing this audit.

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Audit Findings

- The Department of Human Services' State Operated Services Division did not adequately manage its business risks or monitor the effectiveness of its internal controls. (Finding 1, page 7)

- The Department of Human Services' State Operated Services Division did not adequately document some high-risk payroll transactions. (Finding 2, page 8)

- The Department of Human Services' State Operated Services Division did not complete physical inventories of fixed assets and sensitive items at the state operated facilities or update its inventory records for some purchases. (Finding 3, page 10)

- The Department of Human Services' State Operated Services Division did not have documentation to support the authorization of two nonroutine transactions. (Finding 4, page 12)

- The Department of Human Services' State Operated Services Division did not adequately separate incompatible duties in several key financial areas of its operations and had some other internal control weaknesses. (Finding 5, page 13)

- The Department of Human Services' State Operated Services Division did not have policies and procedures to ensure it consistently verified client financial information it relied on to determine the client's ability to pay for the cost of care received. (Finding 6, page 16)

- The Anoka-Metro Regional Treatment Center did not have a written contract with the organization that operated the canteen and had not monitored the canteen's financial operations. (Finding 7, page 18)

Audit Objectives and Scope

Objectives
- Internal controls
- Legal compliance

Period Audited
July 1, 2010, through December 31, 2012

Programs Audited
- Payroll expenditures
- Administrative expenditures
- System security
- Cost of care receipts
- Resident accounts

Department of Human Services
State Operated Services Division

Overview

State Operated Services is a division of the Department of Human Services that provides services through state facilities and community-based programs for people with mental illness, developmental disabilities, chemical dependency, and traumatic brain injury. In addition, the division provides care to people who have been civilly committed by a court as "mentally ill and dangerous."[1] The division operates under *Minnesota Statutes* 2013, Chapters 246 and 253.

Patricia Carlson was the division's chief executive officer until April 2013 when Anne Barry took over that role. The division has about 200 geographically dispersed sites located throughout Minnesota to provide services and care to clients, including the regional treatment center in Anoka and the security hospital in St. Peter. Administrative functions are performed at the central office located in St. Paul. The division's Web site states that it served almost 11,000 clients in fiscal year 2010.

The department established various programs, such as Adult Mental Health Services, Child and Adolescent Behavioral Health Services, and Minnesota State Operated Community Services, which the division operated as enterprise funds.[2] It also received funding through state appropriations. During fiscal years 2011, 2012, and 2013, the division collected approximately $465 million for the cost of care provided.

The division incurs a variety of expenditures, including the following:

- **Payroll Expenditures**. The division employed approximately 3,500 staff to provide services to clients and to administer the division's operations.

- **Administrative Expenditures**. The division purchased supplies and equipment for use at its various facilities. The division also contracted with various vendors for pharmaceuticals and to obtain the technical services necessary for a multitude of laboratory tests.

Table 1 shows the division's receipts and disbursements for fiscal years 2011, 2012, and 2013.

[1] *Minnesota Statutes* 2013, 253.20.
[2] Enterprise funds are self-sustaining funds in which expenditures are covered by billing the clients or third parties for the cost of care provided.

Table 1
Department of Human Services' State Operated Services Division
Receipts and Disbursements
Fiscal Years 2011, 2012, and 2013[1]

	2011	2012	2013[1]
Cost of Care Receipts	$158,108,262	$150,833,498	$156,356,721
Expenditures:			
Payroll	$246,626,379	$244,372,256	$254,059,266
Supplies and Materials	15,291,670	15,148,153	15,426,762
Rent	10,015,500	9,400,729	9,577,154
Professional/Technical Services	6,459,229	6,696,301	8,749,953
Other Purchased Services	7,326,739	8,205,464	4,849,980
Equipment	780,691	855,833	689,419
Other Administrative Costs	15,250,998	12,073,177	15,104,688
Total Expenditures	$301,751,206	$296,751,913	$308,457,222

[1] Our audit of fiscal year 2013 was limited to financial activity through December 2012.

Source: State of Minnesota's accounting system.

The division maintains accounts for its residents at the Anoka-Metro Regional Treatment Center and St. Peter Security Hospital. In each facility, residents deposited funds into their accounts and withdrew those funds as needed. During fiscal years 2011, 2012, and 2013, residents deposited approximately $4.4 million and withdrew approximately the same amount.

In February 2013, the Office of the Legislative Auditor's Program Evaluation Division issued a report on state operated services.[3] The evaluation assessed the types of residential and inpatient services provided by the Department of Human Services, the availability of nonstate alternatives for these services, and how well the department managed the services it directly provided. The report concluded, in part, that the Department of Human Services should continue to provide some direct services to clients, but with a clearer mission and more effective resolution of ongoing problems.

[3] Office of the Legislative Auditor, Program Evaluation Division Report, *State-Operated Human Services*, issued February 2013.

Objective, Scope, and Methodology

Our audit of the financial activities at the Department of Human Services' State Operated Services Division included cost of care receipts, resident accounts, system access, employee payroll, and administrative expenditures.

The objective of this audit was to answer the following questions for the period July 1, 2010, to December 31, 2012:

- Did the Department of Human Services' State Operated Services Division have adequate internal controls over the financial activities we examined to ensure that it safeguarded financial resources, accurately paid employees and vendors in accordance with management's authorizations, complied with finance-related legal provisions, and created reliable financial data?

- For the items tested, did the Department of Human Services' State Operated Services Division comply with significant finance-related legal requirements?

- Did the Department of Human Services' State Operated Services Division resolve the prior audit findings related to this audit?[4]

To meet the audit objectives, we gained an understanding of the division's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal requirements. We obtained and analyzed the division's accounting data to identify unusual trends or significant changes in financial operations. In addition, we selected a sample of financial transactions and reviewed supporting documentation to test whether the controls were effective and if the transactions complied with laws, regulations, and policies. We visited several facilities throughout the state, including the Anoka-Metro Regional Treatment Center and St. Peter Security Hospital. At the various facilities, we interviewed the management to gain an understanding of their operations. We also reviewed and tested their internal controls and compliance with department policies and procedures over selected operations.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

[4] Office of the Legislative Auditor, Financial Audit Division Report 07-35, *Minnesota Department of Human Services – State Operated Services*, issued December 21, 2007.

We used the guidance contained in the *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate the department's internal controls.[5] We used state statutes and contracts, as well as policies and procedures established by the departments of Management and Budget and Administration and the Department of Human Services' internal policies and procedures as evaluation criteria over compliance.

Conclusion

Internal controls over the financial activities at the Department of Human Services' State Operated Services Division were generally adequate to ensure that it safeguarded its financial resources, accurately paid employees and vendors in accordance with management's authorizations, and created reliable financial data. The Department of Human Services' State Operated Services Division generally complied with significant finance-related legal requirements. However, they had some control weaknesses and compliance issues. The division resolved the prior audit findings related to this audit.

The following *Findings and Recommendations* section provides further explanation about the exceptions noted above.

[5] The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity. The resulting *Internal Control-Integrated Framework* is the accepted accounting and auditing standard for internal control design and assessment.

Findings and Recommendations

Finding 1

The Department of Human Services' State Operated Services Division did not adequately manage its business risks or monitor the effectiveness of its internal controls.

The division did not effectively manage the risks related to some key operational and finance-related responsibilities, including limiting employee access to its computer systems, ensuring it accurately paid its employees, verifying the existence of its fixed assets, ensuring an adequate separation of incompatible duties, and validating certain payroll and administrative expense transactions. During our audit scope, the division began to develop its comprehensive internal control structure by documenting some of its risks and corresponding controls. However, the division had not identified, analyzed, and documented all risks and controls. In addition, it had not developed policies and procedures to monitor the performance and effectiveness of the internal controls. The division has an increased likelihood of a control deficiency if it does not clearly communicate to staff its risks, control activities, and monitoring policies and procedures.

Since 2009, state statutes have required each agency head to design, implement, and maintain an effective internal control system to ensure the integrity of the state's financial transactions; the state's 2011 internal controls policy reinforces the requirement.[6] The statute and the state policy require documentation of internal control procedures over financial management activities, analysis of risks, and periodic evaluation of control procedures to ensure that the procedures are adequately designed, properly implemented, and functioning effectively. The policy further requires follow-up procedures that, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action. Audit standards reinforced management's responsibility to have effective internal controls over its financial operations.[7]

Findings 2 through 7 identify deficiencies in the division's internal control procedures and specific noncompliance with financial-related legal requirements that were not prevented or detected by the division's internal control structure.

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[6] *Minnesota Statutes* 2013, 16A.057, and Department of Management and Budget Statewide Operating Policy 0102-01, Internal Controls.

[7] Statement on Auditing Standards, No.109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement.*

Recommendation

- *The Department of Human Services' State Operated Services Division should review and clearly document its risks, internal control activities, and monitoring functions related to its operations and compliance requirements.*

Finding 2

The Department of Human Services' State Operated Services Division did not adequately document some high-risk payroll transactions.

The Department of Human Services' State Operated Services Division did not have adequate documentation to support some high-risk payroll transactions resulting from its need to provide around-the-clock services. In addition to paying its employees for routine payroll charges, such as regular hours worked and holiday, sick, and vacation time taken, the division also paid its employees for overtime, shift differential, on-call[8] and call-back[9] time.[10] From July 2010 through December 2012, the division paid about $5.6 million for on-call and call-back activities to physicians and other professional employees to ensure adequate medical coverage of its clients. The division used specialized software to schedule its employees' work hours and track the hours when the actual hours worked deviated from the employees' pre-determined schedule.

The division had the following internal control weaknesses with some of these high-risk payroll transactions:

- The division could not substantiate call-back time paid to some of its employees, as required by state policy.[11] We selected nine employees for testing who earned a total of $27,430 for call-back time for one pay period tested. For each of these employees, we selected one pay period to test whether the division had adequate documentation to support the call-back hours paid. In none of the instances we tested did the division have evidence to substantiate the work the employees performed to support payment of the call-back time.

  In August 2012, the department's internal auditors completed a report identifying serious deficiencies with one physician's compensation for on-call and call-back activities that lacked documentation to support the

[8] On-call refers to monetary compensation paid to employees for hours the employee must remain in close proximity to the job site and be available to report to work as needed.
[9] Call-back refers to monetary compensation paid to employees who reported back to work after their normal shift ended.
[10] These types of payments to employees pose a greater risk to fraud and abuse because there is less direct supervision and verification of work performed.
[11] Statewide Financial Policy PAY0017.

amount of time charged.[12] These deficiencies led to the department's termination of this individual.

In its report, the department's internal auditors made the following recommendation:

> *State Operated Services should closely regulate call-back activity, reserving call-backs to only incidents or emergencies requiring the employee to report. All call-back activity should be documented with the following minimum information recorded:*
>
> - *Date*
> - *Time*
> - *Employee placing the call*
> - *Employee being called*
> - *Description of incident or reason for requesting the call-back*
> - *Time called-back employee arrives at site*
> - *Time incident was resolved and called-back employee left the work site*

To implement this recommendation, division management told us that during a February 2013 meeting with its medical specialists, they verbally instructed employees to document the work performed during call-back hours in the comment section of their electronic timesheets. This documentation would allow the employees' supervisors to review the need for the call-back and authorize the time for payment. To determine whether this instruction had been effective to provide better oversight of call-back payments, we tested timesheets for ten employees who received call-back pay for a pay period in June 2013. Timesheets for eight of the ten employees we tested lacked the required explanation of the work requiring the call-back time, and the employees' supervisors approved the timesheets for payment despite this missing documentation.

State policy requires that supervisors responsible for approving employee timesheets have direct knowledge of the employee's work schedule.[13] Without documentation of the work performed, the supervisor may not have the knowledge necessary to approve the employee's timesheet since the supervisor may not work at the same location or at the same time as the employees they are supervising.

[12] Department of Human Services, Internal Audit Office, audit report number 12-027-S, issued August 10, 2012.

[13] Statewide Financial Policy PAY0017.

- The division did not ensure shift differential and overtime pay was accurate based on the hours worked. We tested 26 shift differential or overtime payments (selecting one such payment per pay period from 26 pay periods). In 9 of the 26 payments tested, the division did not accurately calculate and pay shift differential and overtime based on hours reported. The miscalculations resulted in errors totaling $1,042.87 in the transactions we tested, and ranged from a $31 underpayment to a $563 overpayment.

  Shift differential and overtime calculations are complex; the calculations vary based on an employee's work schedule and the employee's bargaining unit. The complexities increase the risk that errors could occur as employees report their shift differential and overtime hours. State policy[14] requires supervisors to review employee timesheets for accuracy and have the employee correct any errors found, but the division did not require supervisors to manually recalculate overtime and shift differential hours reported by employees. In addition, supervisors told us they were unsure how to calculate some amounts, such as how to apply shift differentials to overtime hours.

Because the division did not have adequate internal controls over these high-risk payroll transactions, mispayments beyond those found in our testing may have occurred without detection.

Recommendations

- *The Department of Human Services' State Operated Services Division should improve internal controls over its payroll process by substantiating and verifying accuracy of time paid, specifically on-call, call-back, shift differential, and overtime pay.*

- *The Department of Human Services' State Operated Services Division should resolve the shift differential and overtime errors identified in the audit and identify and resolve other similar errors in overtime and shift differential payments.*

Finding 3

The Department of Human Services' State Operated Services Division did not complete physical inventories of fixed assets and sensitive items at the state operated facilities or update its inventory records for some purchases.

According to division staff, facilities had not conducted physical inventories of their fixed assets or kept their inventory records up-to-date. The division provided fixed assets, including furnishings, equipment, vehicles, and sensitive items (such

[14] Statewide Financial Policy PAY0017.

as laptop computers) to the facilities for their operations.[15] According to the division, each facility is responsible for tracking its own fixed assets and ensuring that the inventory records are accurate.

The division had the following significant internal control weaknesses in its fixed asset inventory process at the state operated facilities:

- Since 2009, the facilities had not conducted physical inventories of fixed assets and sensitive items; the facilities' fixed assets and sensitive items inventory list totaled about $41.2 million. State policy states that a physical inventory is essential to ensure the accuracy and completeness of financial information and requires agencies to conduct a physical inventory of fixed assets and sensitive items at least every two years.[16]

- The facilities had not recorded in its inventory records 5 of 11 fixed asset and sensitive item purchases we tested in the period from July 2011 through December 2012. These purchases included $20,975 for exercise equipment, $12,900 for cleaning equipment, $2,600 for two laptop computers, and $21,990 for other miscellaneous equipment purchases.

The state's implementation of a new accounting system in July 2011 hindered the division's ability to manage its fixed assets. The state deferred the conversion of June 30, 2011, asset records until during fiscal year 2012, and the location of assets converted to the new system was often not accurate. During our site visits in April 2013, asset coordinators at two of the facilities told us they have not been able to enter fixed asset purchase information into the state's fixed asset management module since its implementation in July 2011.

Recommendation

- *The Department of Human Services' State Operated Services Division should design and implement internal controls to ensure that facilities conduct physical inventories at least every two years and update the inventory records for all fixed asset purchases.*

[15] Department of Administration's User Guide to State Property Management, page 2-1. The state defines fixed assets as items with a normal life expectancy of more than two years and an acquisition value of $5,000 or more and sensitive items "that are generally for individual use, or that could be easily sold and are most often subject to pilferage or misuse."
[16] Department of Administration's User Guide to State Property Management, pp. 2-7 and 5-6.

Finding 4

The Department of Human Services' State Operated Services Division did not have documentation to support the authorization of two nonroutine transactions.

The division did not have documented authorization for the following nonroutine transactions:

- The state's accounting system showed a $6,250 payment made in January 2011 from the Minnesota State Operated Community Services' account to the Child and Adolescent Behavioral Health Services' account, noting that it was repayment of a loan. Division staff confirmed that the transaction was a monthly payment related to a 2009 $1.5 million interest-free loan between the accounts to offset a negative cash balance in the Child and Adolescent Behavioral Health Services' account at the end of that fiscal year. While staff were able to provide us with a 20-year repayment schedule, they were unable to provide any other documentation supporting the authorization, terms, or conditions of the loan. Without documentation, there is an increased risk that the management's intentions related to the loan will not be complied with over time.

- The state's accounting records showed a $2,371,000 payment in August 2011 from one of the division's General Fund accounts to its Community Health Clinics' account in a Special Revenue Fund. Division staff told us the payment was to offset a negative balance in the Community Health Clinics' account and was authorized by law to continue the operation of its community dental clinics. However, division staff were unable to provide us with any documentation to show management authorization for the payment or the basis for the amount of the payment.

  For fiscal year 2011, the Legislature appropriated $6,888,000 from the General Fund to the department for specific purposes related to adult mental health services, including "to continue the operation of the dental clinics in Brainerd, Cambridge, Faribault, Fergus Falls, and Willmar at the same level of care and staffing that was in effect on March 1, 2010."[17] The law further required that the department "shall not proceed with the planned closure of the dental clinics and shall not discontinue services or downsize any of the state-operated dental clinics without specific legislative approval." The law did not state how much of the $6,888,000 appropriation was available for this specific purpose.

  The division recorded the dental clinics' financial activity in the Community Health Clinics' account. Because the division received payments for services after it had incurred the costs, the account needed cash flow resources. To meet this cash flow need, the division obtained authority from the Department of Management and Budget for the

[17] *Minnesota Session Law* 2010, First Special Session, Chapter 1, Article 25, Section 3, Subd. 10 (a) (4).

Community Health Clinics' account to have a negative cash balance.[18] The division's fiscal year 2011 request for this authority stated that a 30-day cash flow was needed and that the maximum funds needed for cash flow purposes would be $282,700. Based on this request, the Department of Management and Budget changed the budget authority for the account to allow it to have a negative balance.

As of July 31, 2011, the account's balance was $(2,262,117). The $2,371,000 payment from the General Fund restored the account's resources and, as of August 31, 2011, the balance in the account was $104,255. We think that the substance of the transaction achieved the purpose of the appropriation by providing needed resources, but without documentation to support the transaction, we were unable to determine whether staff acted within the authorization of the department's management.

Without documentation, the division was unable to show these transactions complied with management's authorization.

Recommendations

- *The Department of Human Services' State Operated Services Division should ensure it retains documentation to support internal loans and other cash flow transactions.*

- *The Department of Human Services' State Operated Services Division should document the circumstances of the 2009 loan between the Minnesota State Operated Community Services and the Child and Adolescent Behavioral Health Services programs and determine whether to continue or alter its terms, conditions, and repayment schedule.*

Finding 5

The Department of Human Services' State Operated Services Division did not adequately separate incompatible duties in several key financial areas of its operations and had some other internal control weaknesses.

The Department of Human Services' State Operated Services Division did not ensure that it had separated incompatible duties in several key areas of its operations, including computer system security access, reconciliation of receipts

[18] The state's accounting system generally prevents accounts from using more resources than are available. The Department of Management and Budget only allows exceptions to this general limitation when "the Executive and Legislative branches do not provide for sufficient cash flow to pay for start-up or ordinary and necessary expenses through the normal appropriation process or where cash receipts do not match purchasing or payment needs," as stated in its budget policy 0306-04. When one account in the accounting system has a negative balance, it is using the cash reserves of other funds to make payments.

collected, resident accounts, and canteen operations. Separation of incompatible duties is a fundamental internal control designed to prevent or promptly detect errors or irregularities from being processed in the accounting system.[19] State policy requires a separation of incompatible duties; however, if an entity is unable to adequately separate incompatible duties, the policy requires the entity to develop and document internal controls to mitigate the risk that errors or fraud could occur without detection.[20]

The State Operated Services Division had inadequate separation or mitigation of incompatible duties and some other internal control weaknesses in the following areas:

- **Incompatible access to the division's medical billing system.** The division had not identified the combinations of security roles that would result in incompatible access to its medical billing system. Using the division's descriptions of the system's various security roles and the activities associated with those roles, we identified six security role combinations we believed were incompatible and increased the risk that errors or irregularities could occur and not be detected. Based on our assessment, 64 employees had combinations of security roles that seemed incompatible. Those roles allowed the users access to record billing information and adjust the corresponding receivable. With this access, a user could inadvertently or inappropriately reduce a client's liability without detection. Because the division had not identified the roles as incompatible, it had not developed and implemented controls to mitigate the risk.

- **Incompatible duties and other internal control weaknesses in the medical billing system's reconciliation process.** The division did not effectively mitigate the risk created by having the same person who recorded transactions in the medical billing system also perform the reconciliation between the medical billing system and the state's accounting system. The employee's supervisor stated that she occasionally reviewed the reconciliation; however, the review was not effective to mitigate the risk of the incompatibilities because it was not routinely performed and was not documented.

  In addition, the division did not consistently document the reconciliation it performed between the state's accounting system and the billing subsystem. We found instances where the reports used in the reconciliation process lacked any evidence of review, such as identification of differences between the reports, the date when the

[19] Statewide Financial Policy 1101-07.

[20] We identified incompatible combinations of security roles for the state's accounting system using a matrix of incompatible security roles developed by the Department of Management and Budget.

reconciliation was performed, and the signature of the employee that performed it.

The reconciliation is necessary to maintain an accurate record of clients' account balances in the medical billing system and to ensure that receipts were recorded to the correct account within the state's accounting system. The duties of recording transactions and performing the reconciliation are incompatible because, when performed by the same employee, errors or inappropriate transactions identified through the reconciliation may not be corrected or resolved.

- **Incompatible duties and other internal control weaknesses in the Anoka-Metro Regional Treatment Center and St. Peter Security Hospital resident accounts' processes.** Each facility allowed one employee to collect and disburse residents' money and also record the transactions in the residents' accounts. These duties are incompatible because errors or inappropriate transactions may occur without detection.

  In addition, the St. Peter facility did not adequately safeguard cash maintained at its resident bank. During the hours of operations, the cash on hand was in an unsecured location accessible to both employees and residents. Unsecured cash increases the risk of theft or loss.

  Finally, the division did not have documented policies and procedures for administering residents' accounts at the facilities. Documented polices and procedures help to ensure that employees understand their duties, including internal controls, related to the collection, safeguarding, depositing, and recording of receipts.

- **Incompatible duties and other internal control weaknesses at the St. Peter Security Hospital canteen operations.** The St. Peter facility did not adequately separate duties at one of its canteens. One employee operated the canteen, closed out the cash register at the end of the day, counted the cash, and prepared the deposit. These duties are incompatible because, when they are performed by one person, discrepancies, errors, or inappropriate transactions may not be detected or resolved. For example, the canteen operator told us that the cash counted at the end of the day rarely matched the amount listed on the cash register tape; however, because no one else was involved in the process, the reasons for these discrepancies had not been investigated.

  In addition, the division did not have documented policies and procedures for the operation of canteen services at the facilities. Documented policies and procedures help to ensure that employees understand their duties, including internal controls, related to the collection, safeguarding, depositing, and recording of receipts.

Recommendations

- *The Department of Human Services' State Operated Services Division should eliminate incompatible access to its business systems and incompatible duties in its financial operations of the facilities or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.*
- *The Department of Human Services' State Operated Services Division should document the reconciliations between the medical billing system and the state's accounting system, including when and by whom the reconciliations were performed and the actions taken to resolve any discrepancies.*
- *The St. Peter Security Hospital should safeguard resident account cash to minimize the risk of loss or theft.*
- *The Department of Human Services' State Operated Services Division should develop, implement, and monitor policies and procedures for resident account operations at Anoka-Metro Regional Treatment Center and St. Peter Security Hospital and for canteen operations at St. Peter Security Hospital.*

Finding 6

The Department of Human Services' State Operated Services Division did not have policies and procedures to ensure it consistently verified client financial information it relied on to determine the client's ability to pay for the cost of care received.

State statutes and rules direct the Department of Human Services to determine the extent to which clients receiving medical services through the State Operated Services Division are able to pay for their care. Many of the clients receiving services have limited financial resources, but they may have insurance or qualify for the state's Medical Assistance or MinnesotaCare programs for low income people. A diligent effort on the part of the division to identify clients' ability to pay reduces the unreimbursed costs of the State Operated Services Division. While each client may have unique circumstances affecting his or her ability to pay for the care provided, better guidance about management's expectations for how to verify a client's financial resources would help ensure that the division collects payment for services provided in compliance with state statutes and rules.

Minnesota Statutes 2013, 246.51, requires the department to determine whether a client has health insurance to cover the services provided and, if not, requires the commissioner to determine "what part of the noncovered cost of care, if any, the client is able to pay." The statute also states, "The client and relatives shall provide to the commissioner documents and proof necessary to determine the client's and relatives' ability to pay. Failure to provide the commissioner with sufficient information to determine ability to pay may make the client or relatives liable for the full cost of care until the time when sufficient information is provided." In addition, *Minnesota Rule* 9515.1600 states the following: "The department shall verify: the person's income, insurance benefits, property, deductions allowed to pay previously incurred debts, and the number of dependents claimed."

The division's cost of care policy (Policy Number 7050) and its related procedures, set out a general expectation for staff to determine clients' ability to pay for their cost of care and to collect on past due accounts. However, the policy does not address the rule's requirement to verify clients' financial information or explain how verification could occur.

The division did not have evidence to show how it verified the financial information it obtained from 6 of the 20 clients whose files we reviewed. Based on the information these clients provided, the division had correctly determined the clients' ability to pay for care provided. However, if the division did not verify the information provided by the clients, they may have relied on incomplete or inaccurate information. It can be especially difficult to verify a lack of financial resources (since there may not be a bank statement, tax return, or other evidence to use as proof of accuracy of the financial information the client provided); without a process to show the steps expected to be taken, staff may have difficulty ensuring that they were diligent in verifying the information.

Also, the division had not updated the monthly household living allowance it used to calculate the cost of care for clients with dependents living in the household. State rules require the division to adjust the allowance by July of each year to reflect the change in the consumer price index.[21] Because the average annual consumer price index has increased from 195.3 in 2005 (when the rule was put in place) to 232.957 in 2013, the division has understated the allowable monthly household living allowance and may have overbilled some clients for the cost of care.

Recommendations

- *The Department of Human Services' State Operated Services Division should develop, document, and implement policies and procedures to provide staff with clear guidance on how to verify client financial information.*
- *The Department of Human Services' State Operated Services Division should annually adjust the monthly household living allowance used to calculate the cost of care for clients with dependents living in the household.*

[21] *Minnesota Rule* 9515.2400.

Finding 7

The Anoka-Metro Regional Treatment Center did not have a written contract with the organization that operated the canteen and had not monitored the canteen's financial operations.

The Anoka-Metro Regional Treatment Center had a verbal agreement with the Anoka-Metro Regional Treatment Center Auxiliary, a 501(c)(3) organization, to operate a canteen at the center. The facility allowed the organization to handle all aspects of the canteen's operations, including purchasing merchandise, collecting and depositing receipts into the organization's accounts, and providing volunteer staffing. Center staff told us the verbal agreement expected that the organization would use the canteen's profits for the benefit of people receiving care and treatment at the center; however, they had not monitored the canteen's financial activities to determine whether the organization complied with this expectation.

As shown in Table 2, the organization's federal tax filings for fiscal years 2009, 2010, and 2011 showed the following canteen-related receipts, expenses, and profit or loss:

Table 2
Anoka-Metro Regional Treatment Center Auxiliary
Canteen-Related Receipts, Expenses, and Profit (Loss)
By Year, 2009 through 2011

Year	Receipts	Expenses	Profit (Loss)
2009	$57,104	$49,927	$ 7,177
2010	37,899	42,761	(4,862)
2011	34,268	33,122	1,146
Cumulative Profit			$ 3,461

Source: Federal tax filings of the Anoka-Metro Regional Treatment Center Auxiliary for 2009, 2010, and 2011.

On its tax filings, the organization listed its address as the address of the Anoka-Metro Regional Treatment Center. The organization's bylaws describe its purpose as follows:

> The purpose of the Auxiliary shall be to render volunteer support and service to the Anoka-Metro Regional Treatment Center and to its patients; to maximize the public's awareness, understanding and support of the Center's mission and programs and services; and to gain public support for the development of additional resources for the Center and its patients and to be used for outpatient mental health services in the community.

In 2006, the organization received a large bequest that it has used to provide grants to organizations that work with the mentally impaired. The organization's tax filings show that in 2009 it awarded four grants to those types of organizations totaling $51,500; in 2010 it awarded ten grants totaling $105,000; and, in 2011, it awarded nine grants totaling $114,476. Because the organization also uses its resources to support other organizations, there may be a greater risk that some canteen profits might be used in ways that do not benefit the Anoka-Metro Regional Treatment Center or its clients.

Without a written contract, there was no assurance that the terms and conditions of the relationship are understood by both parties, and it would be more difficult to resolve disputes if they should arise. Beyond specifying the appropriate use of canteen profits, the contract could include other important considerations, such as statutory contract requirements, limitations on building access, and liability waivers or insurance requirements. Also, because of the organization's close association with the Anoka-Metro Regional Treatment Center, actions of the auxiliary or its volunteers could impact the center's operations and reputation.

Recommendations

- *The Department of Human Services' State Operated Services Division should have a written contract with the organization that operates the canteen at the Anoka-Metro Regional Treatment Center.*

- *The Department of Human Services' State Operated Services Division should monitor the organization's canteen operation to ensure that it uses canteen profits for the benefit of the residents.*

Minnesota Department of **Human Services**

March 28, 2014

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

Dear Mr. Nobles:

Thank you for the opportunity to review and comment on the findings in the draft Office of Legislative Auditor report titled *Department of Human Services' State Operated Services Division Internal Controls and Compliance Audit July 2010 through December 2012*. We appreciate and value the thorough examination of internal controls and general compliance in our State Operated Services Division.

The department is working hard to improve compliance and resolve the issues noted. A strong and comprehensive internal control environment is critical as we work to fulfill our mission of assisting people with developmental disabilities and/or complex mental and behavioral health needs as they prepare for successful community living.

Below are the department's responses to the findings and recommendations in this draft report.

Audit Finding #1

The Department of Human Services' State Operated Services Division did not adequately manage its business risks or monitor the effectiveness of its internal controls.

Audit Recommendation #1

- *The Department of Human Services' State Operated Services Division should review and clearly document its risks, internal control activities, and monitoring functions related to its operations and compliance requirements.*

Agency Response to Audit Recommendation #1

The department takes very seriously our obligation to identify and manage risks across all operations. Since the initial reporting of this finding in our Federal Compliance Audits, the department has hired an Enterprise Risk Management Coordinator, chartered an Enterprise Risk Management Planning Team, developed a multi-year risk assessment plan, and has invested in training to strengthen our internal control awareness.

As part of ongoing efforts to build an effective internal control system across the breadth and depth of State Operated Services (SOS), the senior leadership of SOS will ensure that a comprehensive risk assessment is performed in FY15 on SOS financial management activities, including clear documentation of risks and internal controls.

In addition, a system of appropriate monitoring activities will be discussed, developed, and documented. This FY15 focus on financial management activities will be augmented by ongoing assessment and tracking of risks and internal controls in critical program areas and other support functions.

Person Responsible: Michael West
Estimated Completion Date: June 30, 2015

Audit Finding #2

The Department of Human Services' State Operated Services Division did not adequately document some high-risk payroll transactions.

Audit Recommendation #2-1

- *The Department of Human Services' State Operated Services Division should improve internal controls over its payroll process by substantiating and verifying accuracy of time paid, specifically on-call, call-back, shift differential, and overtime pay.*

Agency Response to Audit Recommendation #2-1

The department will issue guidance to State Operates Services' managers and supervisors to compare and verify time recorded by employees on timesheets with schedules and other logs of hours and overtime worked and to verify hours before approving timesheets for payment. Guidance to the employees will include a requirement that a comment must be recorded for each instance of overtime in a pay period. Managers and supervisors approving timesheets will be expected to review the comments and verify this information against schedules and/or other logs of hours and overtime worked before approving the timesheet for payment.

The State Operated Services Division will implement a process to log call back for each instance of call back of an employee to contain date, time, reason for call back and other information necessary to support the need for the call back. Managers and supervisors approving timesheets with call back will be expected to compare and verify the claimed call back hours against the log before approving the timesheet for payment.

Person Responsible: Jim Yates
Estimated Completion Date: June 30, 2014

Audit Recommendation #2-2

- *The Department of Human Services' State Operated Services Division should resolve the shift differential and overtime errors identified in the audit and identify and resolve other similar errors in overtime and shift differential payments.*

Agency Response to Audit Recommendation #2-2

The department will issue guidance to State Operated Services' managers and supervisors to compare and verify time recorded by employees' on timesheet with schedule and other logs of hours and overtime worked and to verify overtime and shift differential calculations before approving timesheets for payment.

Person Responsible: Jim Yates
Estimated Completion Date: June 30, 2014

Audit Finding #3

The Department of Human Services' State Operated Services Division did not complete physical inventories of fixed assets and sensitive items at the state operated facilities or update its inventory records for some purchases.

Audit Recommendation #3

- *The Department of Human Services' State Operated Services Division should design and implement internal controls to ensure that facilities conduct physical inventories at least every two years and update the inventory records for all fixed asset purchases.*

Agency Response to Audit Recommendation #3

There have been significant issues related to the conversion of the State's accounting system from MAPS to SWIFT. The conversion resulted in the loss of fixed asset data, including asset location, as well as the ability for fixed asset coordinators in the field to record asset transactions (transfers and disposals). The department has been working diligently with MN.IT Services to correct the data converted.

Additionally, the conversion to the state-wide Archibus system from the DHS Archibus system resulted in the loss of access of information needed to complete inventories. The department continues to work internally and with the Archibus work group to obtain a fixed asset inventory listing and the scanning option to be able to complete the physical inventories required. Once an initial inventory has been completed, our plan is to conduct asset inventories on the recommended 2-year cycle.

Persons responsible: Lori Zook/ Shirley Jacobson
Estimated completion date: December 31, 2014

Audit Finding #4

The Department of Human Services' State Operated Services Division did not have documentation to support the authorization of two non-routine transactions.

Audit Recommendation #4-1

- *The Department of Human Services' State Operated Services Division should ensure it retains documentation to support internal loans and other cash flow transactions.*

Agency Response to Audit Recommendation #4-1

All transfer and loan activity requires management approval. The prior approval processes used by the State Operated Services Division routed approvals through e-mail with the final document typically saved as an e-mail by the last party. The department drafted a new procedure requiring that final documentation be saved electronically in a shared document folder.

Persons Responsible: Shirley Jacobson
Estimated Completion Date: June 30, 2014

Audit Recommendation #4-2

- *The Department of Human Services' State Operated Services Division should document the circumstances of the 2009 loan between the Minnesota State Operated Community Services and the Child and Adolescent Behavioral Health Services programs and determine whether to continue or alter its terms, conditions, and repayment schedule.*

Agency Response to Audit Recommendation #4-2

The State Operated Services Division was unable to locate the original document created for this loan. Documentation will be recreated and determination of the original terms of the loan will be review and documented.

Persons Responsible: Shirley Jacobson
Estimated Completion Date: June 30, 2014

Audit Finding #5

The Department of Human Services and its State Operated Services Division did not adequately separate incompatible duties in several key financial areas of its operations and had some other internal control weaknesses.

Audit Recommendation #5-1

- *The Department of Human Services State Operated Services Division should eliminate incompatible access to its business systems and incompatible duties in its financial operations of the facilities or develop, document, and monitor mitigating controls that provide independent scrutiny and review of the activity processed by those employees.*

Agency Response to Audit Recommendation #5-1

The medical billing software security is based on staff position roles and duties. The billing system is used to bill services for patients and to track accounts receivable for these services. Collections for these services are directly deposited to the State's accounting system. The current security roles were designed when the system was set up and have not been revised to reflect changes in workflow over time. These roles are being reviewed and adjusted as part of the upgrade to the billing system scheduled for the 2nd quarter of FY2015. While this resolves the issue with the typical user, there are super users who will continue to have expanded access/roles that are required to fulfill their job function, primarily to access system tables needed to create reports. State Operated Services will work with DHS Internal Audits Office to create to provide mitigating controls where we are unable to eliminate the incompatible access and duties.

Persons responsible: Lori Zook/Shirley Jacobson
Estimated completion date: December 31, 2015

Audit Recommendation #5-2

- *The Department of Human Services' State Operated Services Division should document the reconciliations between the medical billing system and the state's accounting system, including when and by whom the reconciliations were performed and the actions taken to resolve any discrepancies.*

Agency Response to Audit Recommendation #5-2

Reconciliations completed did not include the name of the preparer or the action taken when a discrepancy was located as part of the file copy. The department recently drafted a procedure that outlines the process of reconciling the medical billing system and the state's accounting system that requires dates, actions taken to resolve discrepancies and signatures by management attesting that resolution of discrepancies have been completed.

Persons responsible: Shirley Jacobson/Wendy Rider
Estimated completion date: June 30, 2014

Audit Recommendation #5-3

- *The St. Peter Security Hospital should safeguard resident account cash to minimize the risk of loss or theft.*

Agency Response to Audit Recommendation #5-3

The department has evaluated the issue and determined that access to the cash drawer through the window is not probable due to physical limitations. The department has also reminded staff to follow established policies and procedures that requires the door to the office be shut and locked while cash is out of the safe. Changes to physical plant are not recommended in the current location.

Persons responsible: Lori Zook/Shirley Jacobson
Estimated completion date: June 30, 2014

Audit Recommendation #5-4

- *The Department of Human Services' State Operated Services Division should develop, implement, and monitor policies and procedures for resident account operations at Anoka-Metro Regional Treatment Center and St. Peter Security Hospital and for canteen operations at St. Peter Security Hospital.*

Agency Response to Audit Recommendation #5-4

The State Operated Services Division will implement internal controls and draft policies and procedures for the activities listed.

Persons responsible: Lori Zook/Shirley Jacobson
Estimated completion date: June 30, 2014

Audit Finding #6

The Department of Human Services' State Operated Services Division did not have policies and procedures to ensure it consistently verified client financial information it relied on to determine the client's ability to pay for the cost of care received.

Audit Recommendation #6-1

The Department of Human Services' State Operated Services Division should develop, document, and implement policies and procedures to provide staff with clear guidance on how to verify client financial information.

Agency Response to Audit Recommendation #6-1

The State Operated Services Division recently drafted a policy requiring staff to electronically document all patient/client financial information. The policy also requires the completion of a standardized check list for information required in the file. To further verify patient/client financial information, the State Operated Services Division will pursue authority to use a credit service to obtain additional information on individual's ability to pay for services.

Persons Responsible: Shirley Jacobson/Wendy Rider
Estimated Completion Date: June 30, 2014

Audit Recommendation #6-2

- *The Department of Human Services' State Operated Services Division should annually adjust the monthly household living allowance used to calculate the cost of care for clients with dependents living in the household.*

Agency Response to Audit Recommendation #6-2

The State Operated Services Division will generate a new household living allowance table that will be updated annually. The State Operated Services Division will also need to remove the table from the current Minnesota Rule.

Persons Responsible: Shirley Jacobson/Lori Zook
Estimated Completion Date: June 30, 2014

Audit Finding #7

The Anoka-Metro Regional Treatment Center did not have a written contract with the organization that operated the canteen and had not monitored the canteen's financial operations.

Audit Recommendation #7-1

- *The Department of Human Services' State Operated Services Division should have a written contract with the organization that operates the canteen at the Anoka-Metro Regional Treatment Center.*

Agency Response to Audit Recommendation #7-1

The department will construct an agreement with the organization that operates the canteen at the Anoka-Metro Regional Treatment Center. This will be an in-kind arrangement that offers the space in return for operating the canteen.

Persons Responsible: Steve Allen
Estimated Completion Date: June 30, 2014

Audit Recommendation #7-2

- *The Department of Human Services' State Operated Services Division should monitor the organization's canteen operation to ensure that it uses canteen profits for the benefit of the residents.*

Agency Response to Audit Recommendation #7-2

The Anoka Metro Regional Treatment Center Auxiliary is an outside organization, established independently of the state under the appropriate IRS tax-exempt guidelines. As such, the department cannot ensure that the Auxiliary uses its profits for the benefit of the residents without jeopardizing the Auxiliary's independence from the department and potentially affecting the Auxiliary's tax-exempt status. The department will further evaluate this issue and take the appropriate action.

Persons Responsible: Anne Barry
Estimated Completion Date: June 30, 2014

Thank you again for the professional and dedicated efforts of your staff during this audit. The Department of Human Services policy is to follow up on all audit findings to evaluate the progress being made to resolve them. Progress is monitored until full resolution has occurred. If you have any further questions, please contact Gary L. Johnson, Internal Audit Director, at (651) 431-3623.

Sincerely,

Lucinda E. Jesson

Lucinda E. Jesson
Commissioner