

Change Item Title: Expansion of Internal Audits Capacity

Fiscal Impact (\$000s)	FY 2014	FY 2015	FY 2016	FY 2017
General Fund				
Expenditures	344	323	499	499
Revenues	0	0	0	0
xxx Fund (specify the fund)				
Expenditures	0	0	0	0
Revenues	0	0	0	0
Net Fiscal Impact = (Expenditures – Revenues)	344	323	499	499

Recommendation:

The Governor recommends expanding the agency’s capacity to conduct internal compliance and financial audits of public programs and operations. The goal is to ensure that these programs are administered in accordance with federal and state laws, rules, and regulations and that program funds are directed to where there are needed most. As the size of human service program has increase, it has becomes a challenge to accomplish this goal with existing resources. The increased internal audits capacity would enable the agency to better address known internal control deficiencies and program inefficiencies based on assessed risk, while still providing sufficient resources to respond to emerging high priority incidents. This proposal will add five auditors in FYs 2014-2017. The Federal government will reimburse the state for 35% of the costs of the 5 FTEs. This results in a net investment of \$667,000 from the General Fund for the Fy2014-15 biennium.

Rationale/Background:

Currently, the Compliance Office has only three experienced auditors to audit the programs associated with an eleven billion dollar annual budget. Since 1998, they have averaged about \$365,000 per year in recommendations to recover or avoid misspent funds, with most of the recommendations involving MA funds. Additionally, they have worked on many other audit projects and issued several reports creating program efficiencies with internal control recommendations, including one recent recommendation involving our EBT card system that likely blocked the release of confidential or private data on every client we have in the program.

Unfortunately, limited staffing relegates the audit function to putting out fires instead of proactively auditing programs and issues by assessed risk. This fall DHS will start to engage in formal risk assessments of our seven major federal programs: social service block grants, child care, child support enforcement, foster care, supplemental nutrition assistance program, TANF, and medical assistance. This process will lead to the identification of areas of vulnerability and inefficiency. We believe that it is critical that Internal Audit maintain a robust presence if our risk assessment process is to function adequately.

Working through the DHS Enterprise Risk Management Planning Team, our goal is to improve operations by identifying and remediating inefficient processes thereby assuring compliance with the law. Without sufficient audit capacity to follow up on these identified vulnerabilities, however, we will be unable to attain our goals. Audit staff are essential to conduct work analyzing and testing our control environment, improving processes, gaining efficiencies in operations and reducing identified risks to a manageable level.

Also, with the consolidation of IT staff at MN.ITS, over 600 DHS staff were reassigned to MN.ITS, leaving DHS with few staff that have strong technical backgrounds in information technology. DHS relies heavily on technology to create, manage and operate its many programs, and manage access to the related client data. DHS data is heavily regulated with federal and state laws and regulations like the Health Information Portability and Accountability Act (HIPAA), Internal Revenue Service Publication 1075, Federal Information Processing Standards (FIPS) Publication 200, and the Minnesota Data Practices Act. While MN.ITS and DHS work hard to keep DHS in compliance with these laws and regulations, the responsibility to assure compliance rests with DHS. HIPAA violations come at a cost, too, with maximum penalties of \$50,000 per violation or \$1.5 million annually. Accordingly, DHS must develop the capacity to audit our systems and related controls to assure and maintain compliance with our federal and state obligations.

Assigning audit projects based upon the knee jerk requests of the media, our clients or even our partners, does not allow us to focus or on specific programs and key weaknesses within those programs, where recoveries are

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most likely to be found. Additional audit resources would enable us to tackle known internal control deficiencies and program inefficiencies based on as assessed risk, while still giving us sufficient resources to respond to emerging high priority incidents like theft of client funds, data breaches, employee misconduct issues, reports of problems in specific grants, and various media driven issues.

Proposal:

DHS' Internal Audits Division completes compliance and financial audits of the Department's programs and operations. The Internal Audit function is to strengthen and maintain the control environment, in part, so programs are administered correctly (in accordance with federal and state laws, rules and regulations) and program funds are directed to where they are needed most. One of the first projects the internal audits area will tackle involves establishing an efficient process, including the relevant internal controls, to provide accurate and timely information related to the identification, establishment, and recovery of overpayments in various programs. This revised process will help the agency better manage recoveries, and to accurately assess and measure the true impact of changes in related policies or procedures.

Performance Measures:

Performance measures for this outcome would include costs savings. cost avoidance from issues audit reports, and also less tangible benefits such as improved internal controls, lower overall business risk, and improved efficiencies.

Statutory Change: Not Applicable

DHS Fiscal Detail for Budget Tracking

General Fund			344	323	667	499	499	998
Other Funds								
Total All Funds			344	323	667	499	499	998
GF	11	Operations	530	497	1,027	767	767	1,534
Gf	REV1	FFP @ 35%	(186)	(174)	(360)	(268)	(268)	(536)
GF	11	Internal auditors	5	5	5	5	5	5