



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Health
Fiscal Year Ended June 30, 2003



MARCH 24, 2004

04-19

Financial Audit Division

The Office of the Legislative Auditor (OLA) is a professional, nonpartisan office in the legislative branch of Minnesota state government. Its principal responsibility is to audit and evaluate the agencies and programs of state government (the State Auditor audits local governments).

OLA's Financial Audit Division annually audits the state's financial statements and, on a rotating schedule, audits agencies in the executive and judicial branches of state government, three metropolitan agencies, and several "semi-state" organizations. The division also investigates allegations that state resources have been used inappropriately.

The division has a staff of approximately forty auditors, most of whom are CPAs. The division conducts audits in accordance with standards established by the American Institute of Certified Public Accountants and the Comptroller General of the United States.

Consistent with OLA's mission, the Financial Audit Division works to:

- Promote Accountability,
- Strengthen Legislative Oversight, and
- Support Good Financial Management.

Through its Program Evaluation Division, OLA conducts several evaluations each year.

OLA is under the direction of the Legislative Auditor, who is appointed for a six-year term by the Legislative Audit Commission (LAC). The LAC is a bipartisan commission of representatives and senators. It annually selects topics for the Program Evaluation Division, but is generally not involved in scheduling financial audits.

All findings, conclusions, and recommendations in reports issued by the Office of the Legislative Auditor are solely the responsibility of the office and may not reflect the views of the LAC, its individual members, or other members of the Minnesota Legislature.

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If you have comments about our work, or you want to suggest an audit, investigation, or evaluation, please contact us at 651-296-4708 or by e-mail at auditor@state.mn.us

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA,CISA	Audit Manager
Susan Rumpca, CPA	Auditor-in-Charge
Susan Mady	Auditor
Carl Otto, CPA,CISA	Auditor
Pat Ryan	Auditor

Exit Conference

We discussed the findings and recommendations in this report with the following staff of the Department of Health on March 17, 2004:

Darcy Miner	Deputy Commissioner
Robert Einweck	Director, Office of Emergency Preparedness
David Hovet	Director, Financial Management
Janet Olstad	Assistant Division Director
Rick Chiat	WIC Vendor Supervisor

Report Summary

Key Findings:

- The Department of Health did not obtain certain information that could affect eligibility for participants in the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) program. (Finding 1, page 3)
- The department did not accurately record or report certain transactions for financial statement purposes. (Findings 2 and 4, pages 3 and 4)
- The department did not comply with federal cash management regulations when it advanced funds to community health boards for the Public Health Preparedness and Response to Bioterrorism Program. (Finding 3, page 4)
- The department did not adequately manage fixed assets purchased through federal funding. (Finding 5, page 5)

Management letters address internal control weaknesses and noncompliance issues found during our annual audit of the state's financial statements and federally funded programs. The scope of work in individual agencies is limited. During the fiscal year 2004 audit, our work at the Department of Health focused on major federally funded programs administered by the department to determine whether the department complied with certain federal requirements. The department's response is included in the report.



Representative Tim Wilkin, Chair
 Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dianne Mandernach, Commissioner
 Department of Health

We have audited certain federal financial assistance programs administered by the Department of Health as part of our audit of the state’s compliance with the 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, 2003. We emphasize that this has not been a comprehensive audit of the Department of Health.

Table 1 identifies the State of Minnesota’s major federal programs administered by the Department of Health. We performed certain audit procedures on these programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs.

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.

Table 1
Major Federal Programs
Administered by the Department of Health
Fiscal Year 2003 (in thousands)

<u>Program Name</u>	<u>CFDA #</u>	<u>Federal Expenditures</u>
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$60,034
Centers for Disease Control and Prevention - Investigations and Technical Assistance ⁽¹⁾	93.283	\$20,090

⁽¹⁾ Includes the Public Health Preparedness and Response to Bioterrorism Program.

Note: We also audited the department’s cash management practices and other general compliance requirements related to federal assistance.

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2003.

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Conclusions

Our December 5, 2003, report included an unqualified opinion on the State of Minnesota's basic financial statements. In accordance with *Government Auditing Standards*, we have also issued our report, dated December 5, 2003, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. In March 2004, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

As a result of our audit work, we identified the following weaknesses in internal control or instances of noncompliance with federal program requirements at the Department of Health:

1. The Department of Health did not obtain certain information that could affect WIC eligibility.

The department has not requested information on retroactive eligibility changes from the Department of Human Services. County workers sometimes use previous eligibility determinations made for other assistance programs to determine eligibility for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) (CFDA 10.557). For example, in some cases, if the Department of Human Services (DHS) has already determined the recipient to be eligible for food stamps, the participant may be automatically eligible to receive WIC benefits. However, as part of its administrative responsibilities, DHS routinely reevaluates its eligibility determinations, and may find that participants previously deemed eligible for benefits are not. Since the Department of Health has not requested information from DHS concerning retroactive eligibility changes, it has not reevaluated the WIC participant's eligibility.

Recommendation

- *The department should work with DHS to evaluate the feasibility and cost-benefit of obtaining DHS's eligibility reevaluation findings to complement WIC eligibility determination.*

2. The Department of Health incorrectly recorded some contract payments on the state's accounting system.

Due to errors in the way the department entered information into the Contract Financial Management System, the state's accounting system sometimes had the wrong date in the 'record date' field. The Department of Finance uses the record date to determine the state's outstanding liabilities at year-end for financial reporting purposes. In some cases, the department entered an incorrect record date into the system. In other cases, the department incorrectly showed contract payments as violations of Minn. Stat. Section 16A.15 in the contract management system. This statute requires the encumbrance of funds before the receipt of goods and services. By showing

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the payment as a violation, the record date defaulted to an incorrect date when the information transferred from contract management system to the state's accounting system.

Recommendation

- *The department should review and follow the guidance provided by the Department of Administration for the proper recording of transactions in the Contract Financial Management System.*

3. The Department of Health did not comply with federal cash management regulations.

The department did not comply with federal cash management regulations when it advanced funds to community health boards for the Public Health Preparedness and Response to Bioterrorism Program (a part of the Centers for Disease Control and Prevention - Investigations and Technical Assistance Program, CFDA 93.283). The department paid the boards in equal monthly installments, even if the installments were greater than the actual expenditures incurred by the boards. For example, the department had advanced one community health board \$264,388 as of December 31, 2002, while the board only reported expenditures of \$216,943 as of that date. In another case, the community health board received \$37,776 as of March 31, 2003, but only reported expenditures of \$29,559. The federal regulation that covers cash management, 31 CFR Part 205, Subpart B, requires the department to minimize the time between the transfer of funds to the boards and the boards' use of the funds.

Recommendation

- *The department should minimize the time elapsing between the transfer of funds to subrecipients and the subrecipients' need for the funds.*

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

The department did not recognize certain grant expenditures appropriately for financial reporting purposes. The department advanced funds to community health boards for the Public Health Preparedness and Response to Bioterrorism Program. The department recorded the expenditures on the state's accounting system when it made the advances. The Department of Finance then recognized these advances as expenditures for financial reporting purposes. However, to comply with generally accepted government accounting standards, the department should recognize expenditures resulting from these non-exchange transactions when the community health boards incur liabilities, not when the department makes advances to the boards. The department needs to provide information on actual expenditures to the Department of Finance at year-end to facilitate financial reporting.

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Recommendation

- *The department should compare advances made to the boards to the amounts spent by the boards at June 30. The department should report the differences to the Department of Finance for financial reporting purposes.*

5. The Department of Health did not adequately manage its fixed assets.

The department did not adequately manage fixed assets purchased through federal Public Health Preparedness and Response to Bioterrorism Program (CFDA 93.283) funding. First, the department did not record all fixed assets in its inventory records. Three of the nine fixed assets tested were not included in the department's inventory records. In addition, the department did not always include the physical location of assets on the inventory lists. Of the six sample items recorded on the inventory lists, only two were shown with locations. Finally, the department did not always include other important data in its inventory records, such as the funding source, date received, and estimated useful life. According to federal regulations, the department should manage the equipment acquired under federal grants in accordance with state fixed asset procedures. 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.*

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Health. This restriction is not intended to limit the distribution of this report, which was released as a public document on March 24, 2004.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: March 10, 2004

Report Signed On: March 22, 2004

**Status of Prior Audit Issues
As of March 10, 2004**

Prior Financial Audit Division Audits

February 21, 2003, Legislative Audit Management Letter (Report 03-8) examined the Department of Health's activities and programs material to the Single Audit for the year ended June 30, 2003. The scope included two federal programs: Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and HIV Care Formula Grants. The report contained one finding, which was resolved.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as metropolitan agencies or the State Agricultural Society, the state constitutional officers, or the judicial branch.

MINNESOTA
MDH
DEPARTMENT OF HEALTH

Protecting, maintaining and improving the health of all Minnesotans

March 22, 2004

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
State of Minnesota
Room 140 Centennial Building
658 Cedar Street
St. Paul, MN 55155-1603

Dear Mr. Nobles:

This letter is prepared in response to the draft audit report for the Minnesota Department of Health (MDH) completed by your office for the state fiscal year 2003.

Recommendation:

The Department should work with the Department of Human Services (DHS) to evaluate the feasibility and cost benefit to obtain DHS's eligibility reevaluations to complement WIC eligibility determinations.

Response:

The Department will talk with staff from the Department of Human Services to ascertain the feasibility and cost benefit of obtaining audit results.

Recommendation:

The department should review and follow the guidance provided by the Department of Administration for the proper recording of transactions in the Contract Financial Management System (CFMS).

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Response:

The department concurs with the finding that some coding errors have been made. The majority of the payment transaction errors found resulted from miscoding advance payments on grants. Financial Management will begin processing advances using the current date for the date of record. This should eliminate future errors in the system.

Recommendation:

The department should minimize the time elapsing between the transfer of funds to subrecipients and the subrecipients' need for the funds.

Response:

The department agrees with the recommendation to minimize elapsed time. The department and the Community Health Boards (CHBs) have agreed that processing monthly payments instead of quarterly payments does minimize the time elapsed from transfer of funds to payments to the extent of our current cash management systems. Program direction from the Centers for Disease Control and Prevention has also emphasized getting funds to subrecipients as quickly as possible to meet the goal of the grant to build infrastructure for public health preparedness for acts of bioterrorism. Furthermore, local government officials have been extremely conservative about authorizing local investment in new initiatives without a steady stream of funds. The design of the schedule of advances took these programmatic issues into consideration when adopting the payment process.

As proof to support our position, advance payments were processed for the 17-month period from July 1, 2002 to November 30, 2003. During this period the department collected expenditure data from the 52 CHBs five times to monitor cash balances. Below is a chart that indicated the cash balance available at the end of each reporting period for the entire program. We believe this information demonstrates the willingness and ability of the CHBs to minimize the time elapsed between the receipt of funds from the department and the actual expenditure of funds.

All Community Health Boards				
From:	To:	Expenditures Claimed	Monthly Advances Paid	Over Paid/ (Under Paid)
07/01/2002	09/30/2002	\$583,026.96	\$1,357,840.96	\$774,814.00
10/01/2002	12/31/2002	\$1,128,365.91	\$1,032,089.34	(\$96,276.57)
01/01/2003	03/31/2003	\$1,320,507.74	\$1,024,131.52	(\$296,376.22)
04/01/2003	08/30/2003	\$2,968,089.91	\$2,267,818.73	(\$700,271.18)
08/31/2003	11/30/2003	\$1,679,602.25	\$1,286,063.22	(\$393,539.03)

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We realized that during the first reporting period the monthly advances exceeded the CHBs expenditures. This occurred because the formula used to determine the monthly CHBs advance payment failed to properly account for the delay during the start up phase of this new initiative. The department will attempt to correct this problem in any future new programs.

Currently, the only method available to the department to reduce the time would be to process payments more often than monthly. This method is not feasible because of the administrative cost for both the department and the CHBs involved in making payments more frequently.

Recommendation:

The department should compare advances made to the boards to the amounts spent by the boards at June 30. The department should report the differences to the Department of Finance for financial reporting purposes.

Response:

The department does not agree with this recommendation and it would require additional and unnecessary reporting by the CHBs and the department. The department monitored the cash flow of the CHBs over the past 17 months. During this time the CHBs had cash on hand totaling \$382,161.21 as of March 31, 2003. This was the last report they submitted before the end of the state fiscal year, June 30, 2003. By August 30, 2003 the CHBs had expended \$318,109.97 more than they had received from the health department. What was the cash position of the CHBs on June 30? It is impossible to determine. However, in five months the CHBs went from a positive \$382,000 to a negative \$318,000 cash position. If any advances remained, as of June 30, 2003, it is clearly reasonable to believe they would be immaterial to the financial statements for the State.

The department may consider moving the reporting of expenditures to coincide with the state fiscal year in future grant cycles.

Recommendation:

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

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Response:

The department concurs with this finding. The department is in the process of developing a new materials management system that will help the department identify a purchase as a fixed asset. The department is also revising its fixed asset policy and procedure as well as its purchasing policy and procedure to account for the changes adopted by the Department of Administration in the management of state assets. The department will also commit additional resources to this area and will work with program staff to correct deficiencies in our current inventory system.

Thank you for the respectful manner in which this audit was conducted.

Sincerely,

/s/ Darcy Miner

Darcy Miner
Deputy Commissioner
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