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**OFFICE OF THE LEGISLATIVE AUDITOR**  
STATE OF MINNESOTA

Financial Audit Division Report

**Department of Health**  
**Fiscal Year 2005**



March 16, 2006

06-07

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## 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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All OLA reports are available at our Web Site: <http://www.auditor.leg.state.mn.us>

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](mailto:auditor@state.mn.us)

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**Audit Participation**

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Jeanine Leifeld, CPA, CISA	Audit Manager
Ellen Sibley, CPA, CIA, CFE	Auditor-in-Charge
John Hakes, CPA	Senior Auditor
Tesfaye Negash	Staff Auditor

**Exit Conference**

We discussed the findings and recommendations with the following representatives of the Department of Health at the exit conference held on February 24, 2006

Margaret Kelly	Chief Financial Officer
Dave Hovet	Director of Financial Management
Pati Maier	ADD - Health Promotion and Chronic Disease
Linda Gallatin	IDEPC/OEP Program Manager
Betsy Clarke	Child and Family Health
Janet Olstad	Community and Family Health

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## Report Summary

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### Key Audit Findings:

- The department charged salaries to the WIC and CDC programs without documenting that the employees were actually working on those programs. The department also moved payroll costs between programs without sufficient support. (Finding 1, page 3)
- The department did not access and review a key payroll report. (Finding 2, page 4)
- The department did not comply with certain federal cash management requirements. (Finding 3, page 5)

The audit report contained five audit findings relating to internal control and legal compliance. Three of the findings were repeated from prior reports.

### Audit Scope:

Programs material to the State of Minnesota's federal program compliance for fiscal year 2005.

### Selected Audit Areas:

- Special Nutrition Program: Women, Infants and Children (WIC) (CFDA #10.557).
- Centers for Disease Control and Prevention (CDC) - Investigations and Technical Assistance (CFDA #93.283).

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### Background:

The WIC program provides supplemental food to low-income women and children. WIC expenditures totaled approximately \$71 million for the year. The Centers for Disease Control (CDC) Technical Assistance Program provides project grants for local disease prevention and control. Grants to the Department of Health include those provided under the Public Health Preparedness and Response to Bioterrorism Program. Federal Fund expenditures for this program totaled over \$26 million for the year.



Senator Ann H. Rest, 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, 2005. 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 also audited the department's cash management practices and other general compliance requirements related to federal assistance.

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 2005 (in thousands)

Table with 3 columns: Program Name, CFDA Number, Federal Expenditures. Rows include Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and Centers for Disease Control and Prevention (CDC) - Investigations and Technical Assistance.

Note 1: The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

Note 2: Includes the Public Health Preparedness and Response to Bioterrorism Program.

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2005.

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## Conclusions

Our November 18, 2005, 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 November 18, 2005, 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 2006, 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.

## Findings and Recommendations

### **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, the department was unable to support that its allocation of payroll expenditures to the federal programs was proper. We first reported this issue in 2004.

Payroll charges to specific programs must be supported by evidence that the employees, in fact, worked on those programs. Federal regulations<sup>1</sup> identify standards for time distribution and payroll documentation for federal programs. They state 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 to transfer payroll costs between state and federal programs. However, support for these transfers was often inadequate. The department had these 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. Three of three payroll expense transfers we sampled for CDC were not supported by periodic certifications that the

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<sup>1</sup> U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

## Department of Health

employees worked only on that federal program. Some employees work on either WIC or CDC, as well as on other programs. In five cases, the department did not have the required time studies to support the employees' hours charged to the CDC grant. In addition, in three other cases, time study documentation was not signed by employees and supervisors.

- The department did not comply with the Department of Finance's policy for payroll expense transfers. According to the policy, "The payroll 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 transfers to retroactively move payroll costs between programs each year. Instead, to minimize the need for retroactive adjustments, the department should code all of its positions to the correct expense budgets at the beginning of each year.
- The department did not always document the reasons program staff requested employee payroll funding changes. Four of 15 requests for payroll expense transfers or corrections affecting the CDC programs did not provide sufficient detail about the need for the transfer. Sufficient documentation helps ensure that the transactions are consistent with state or federal requirements.

Routinely using expense transfers and payroll expense corrections 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, which could lead to repayments to the federal government.

### *Recommendation*

- *The department should comply with federal and state requirements for charging payroll to specific programs by:*
  - *establishing multiple funding sources for individual employees in the state's personnel/payroll system, as appropriate, to reduce the need for payroll expense transfers;*
  - *certifying 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.*

## **2. The Department of Health did not access and review a key system report related to payroll self service time entry.**

The department did not review the self service time entry exception report produced through the state's personnel/payroll system. Each pay period, the department should access the Self Service Time Entry Audit Report, produced by the Department of Finance. This report details

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the self time entry transactions that did not meet the ideal control conditions. It lists those employees who did not personally enter their own time and the manager who completed time entry for the employee; and employees whose time entry was approved by someone other than their direct supervisor, and the backup manager who actually approved the time. This information is important for maintaining the integrity and accuracy of the time report process.

### *Recommendation*

- *The department should access and review the Self Service Time Entry Audit Report each pay period.*

### **3. The Department of Health did not comply with federal provisions for cash management in certain instances.**

The department drew federal funds that exceeded federal cash management requirements. Each week, the department requests cash from the federal government to reimburse the department for actual expenditures incurred. Federal regulations require states to minimize the time between the drawdown of federal funds and their disbursement for program purposes.

- In November 2004, the department requested \$1,871,000 for the CDC Bioterrorism Preparedness Grant (CFDA 93.283) twice. It had moved expenditures between two appropriation accounts within the state's accounting system for the grant. The department then drew funds to cover the transferred expenditures. However, the department had already received reimbursement from the federal government for these expenditures. To correct this, the department reduced future reimbursement requests. The excess cash resulting from the duplicate draws was not completely resolved until December 2004.
- In June 2005, the department overdraw approximately \$679,000 of CDC Bioterrorism Preparedness funds due to errors in the calculation of draw requests. The department corrected these overdrafts through reductions to subsequent requests.

### *Recommendation*

- *The department should ensure that draw requests are accurate and comply with federal requirements for minimizing the time elapsing.*

### **4. PRIOR FINDING PARTIALLY RESOLVED: The Department of Health incorrectly coded certain expenditures on the state's accounting system.**

The department did not generally enter the correct record dates when coding grant expenditures into the state's accounting system. The Department of Finance uses the record date to determine the state's outstanding liabilities at year-end for financial reporting purposes. Failure to use the proper record date could result in an understatement of liabilities in the state's financial statements. For its grant transactions, the department typically used the date it

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received the invoice as the record date, instead of the date it received the goods or services. A sample of 18 grant payments to local agencies for the WIC program showed that 16 sample items had incorrect record dates.

### *Recommendation*

- *The department should ensure that it uses correct record dates when entering grant expenditures into the state's accounting system.*

### **5. PRIOR FINDING PARTIALLY RESOLVED: The Department of Health did not conduct a physical inventory of fixed assets acquired by federal grant funding.**

The department had not performed a physical inventory of fixed assets for many years. According to federal regulations, the department should account for the equipment acquired under federal grants in accordance with state fixed asset procedures. Although the department has improved its recording of fixed assets, it has not yet conducted a complete physical inventory to verify the existence and location of its equipment. The Department of Administration's policy<sup>2</sup> requires complete physical inventories of fixed assets and sensitive items at least biennially. In fiscal year 2005, the department purchased approximately \$620,000 for laboratory equipment acquired by funding from CDC grants (CFDA 93.283).

### *Recommendation*

- *The department should conduct a physical inventory of fixed assets in compliance with federal and state requirements.*

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 16, 2006.

*/s/ James R. Nobles*

James R. Nobles  
Legislative Auditor

*/s/ Cecile M. Ferkul*

Cecile M. Ferkul, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 27, 2006

Report Signed On: March 13, 2006

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<sup>2</sup> The Department of Administration's Property Management Reporting and Accountability Policy issued October 9, 2003.

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**Status of Prior Audit Issues  
As of January 27, 2006**

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**Prior Audits**

**March 3, 2005, Legislative Audit Management Letter (Report 05-16)** examined the Department of Health's activities and programs material to the Single Audit for the year ended June 30, 2004. The scope included two federal programs: Special Supplemental Nutrition Program for Women, Infants and Children (WIC) and Centers for Disease Control and Prevention – Investigations and Technical Assistance. The report contained four findings. The department did not resolve three of the issues. We repeated them as findings 1, 4, and 5 in the current report.

**May 24, 2004, Office of the Legislative Auditor Financial-Related Audit on Department of Health (Report 04-26)** covered the period from July 1, 2000, through June 30, 2003. The audit scope was limited to grant and payroll expenditures and licensing receipts from healthcare-related facilities and service agencies. The report contained four findings. We repeated the finding relating to documenting time charged to programs as Finding 1 in the current report.

**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.



*Protecting, maintaining and improving the health of all Minnesotans*

March 10, 2006

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 completed by your office for state fiscal year 2005.

***Recommendation:***

The department should comply with federal and state requirements for charging payroll to specific programs.

***Response:***

The department concurs with this recommendation as it relates to conducting time studies and the certifying of employees charged to a single federal program, but disagrees with that portion of the recommendation related to the method of transferring costs between cost centers.

The department recognizes that a few of the programs at the time of the audit were not conducting time studies, but this has been corrected as of the last quarter of calendar 2005. The department is also working very hard to assure that certifications are prepared on a timely basis, and will continue to work to determine how to monitor and follow-up.

Finally, the department will work with the Department of Finance to address the need to transfer costs from one cost center to another when there are numerous employees for several pay periods. The current method of pay period adjustments is not an efficient use of scarce human resources.

***Recommendation:***

The department should access and review the Self Service Time Entry Audit Report each pay period.

*Response:*

The department agrees with this recommendation. The department is aware of this report, but has not consistently reviewed it since converting to on-line time entry. The department will adjust the post audit review process to ensure this report is reviewed each payroll period and any area of concern is communicated to appropriate parties.

***Recommendation:***

The department should ensure that draw requests are accurate and comply with federal requirements for minimizing the time elapsing.

*Response:*

The department concurs with this recommendation. The department will increase oversight of the draw.

***Recommendation:***

The department should ensure that it uses correct record dates when entering grant expenditures into the state's accounting system.

*Response:*

The department concurs with this recommendation. Additional training has already been provided to the appropriate staff and considers this issue resolved.

***Recommendation:***

The department should conduct a physical inventory of fixed assets in compliance with federal and state requirements.

*Response:*

The department concurs with this recommendation. The department will work on conducting a physical inventory over the next few months.

Mr. Nobles  
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I have assigned Jody O'Malley, Director, Human Resources, to carry out the actions necessary to comply with the second recommendation and I have assigned David Hovet, Director, Finance and Facilities Management, to carryout the actions necessary to comply with the remaining recommendations.

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

Sincerely,

*/s/ Dianne M. Mandernach*

Dianne M. Mandernach  
Commissioner  
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