

O L A

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Health
Fiscal Year Ended June 30, 2006



March 22, 2007

07-05

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:

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Michael Hassing, CPA, CISA	Audit Manager
Rhonda Regnier, CPA	Auditor-in-Charge
John Hakes, CPA	Senior Auditor
Thom Derus	Staff Auditor
Tenzin Tsering	Staff Auditor

Exit Conference

We discussed the finding and recommendation with the following representatives of the Department of Health at the exit conference held on March 12, 2007:

Margaret Kelly	Assistant Commissioner
David Hovet	Director, Financial & Facilities Management
Pati Maier	Assistant Division Director – HPCD
Janet Olstad	Assistant Division Director – CFH
Jane Braun	Assistant Division Director – OEP
Craig Acomb	Assistant Division Director – IDEPC

Report Summary

Audit Finding:

- The department did not adequately oversee compliance with federal and state requirements for documenting time charged to programs. ([Finding 1, page 3](#))

The audit report contained one audit finding relating to internal control and legal compliance. The one finding is repeated from prior reports.

Audit Scope:

Programs material to the State of Minnesota's federal program compliance for fiscal year 2006.

Selected Audit Areas:

- Special Nutrition Program: Women, Infants and Children (CFDA #10.557)
- Centers for Disease Control and Prevention - Investigations and Technical Assistance (CFDA #93.283)
- Childhood Immunization Grants (CFDA # 93.268)

Background:

The Women, Infants and Children Program provides supplemental food to low-income women and children. Its expenditures totaled approximately \$78.6 million for the year. The Centers for Disease Control 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 almost \$28 million. The Immunization Grants Program provides both direct assistance (immunizations) and financial assistance to reduce and ultimately eliminate vaccine preventable diseases. Expenditures for this program totaled approximately \$19.1 million, which included \$15.3 million of immunization vaccines.



OFFICE OF THE LEGISLATIVE AUDITOR
State of Minnesota • James Nobles, Legislative Auditor

Representative Rick Hansen, 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 during fiscal year 2006 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*. 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.

The Department of Finance is responsible for preparing the state's annual *Financial and Compliance Report of Federally Assisted Programs*. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses detected.

Table 1 identifies the state'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 emphasize that this has not been a comprehensive audit of the Department of Health.

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Table 1
Major Federal Programs
Administered by the Department of Health
Fiscal Year 2006 (in thousands)

<u>Program Name</u>	CFDA ^(Note 1) <u>Number</u>	Federal <u>Expenditures</u>
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$78,580
Centers for Disease Control and Prevention (CDC) - Investigations and Technical Assistance ^(Note 2)	93.283	\$28,082
Childhood Immunization Grants ^(Note 3)	93.268	\$19,188

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.

Note 3: Childhood Immunization federal expenditures include \$15.3 million of vaccinations and \$3.8 million of financial assistance.

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2006 and Minnesota Department of Health's summary of vaccinations received from the Center for Disease Control.

Conclusions

Except for the following finding, the Department of Health complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2006.

Finding and Recommendation

1. PRIOR FINDING PARTIALLY RESOLVED: The department did not adequately oversee compliance with federal and state requirements for documenting time charged to programs.

The department did not provide sufficient oversight or adequately document the basis for payroll costs charged to the WIC (CFDA 10.557), Immunization (CFDA 93.268), and Centers for Disease Control Technical Assistance (CFDA 93.283) programs. While the department made some improvements in fiscal year 2006 to its payroll process and documentation, it did not always comply with federal and state requirements and department policy for supporting time charged to federal programs.

First, the department continued to have problems supporting its payroll charges to specific federal programs. Payroll charges to federal programs must be supported by evidence that the employees, in fact, worked on those programs. Federal regulations¹ state that employees who work on multiple programs must support the allocation of their salaries among funding sources

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

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with 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, when employees are assigned to work on only one federal program, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program. Testing of a sample of the department's documentation of its verification and certification for the Center for Disease Control Program identified the following weaknesses:

- Six of fifteen time study and certification samples were not completed. The department created and authorized the certifications as of the date of our audit request.
- One employee certified that they only worked on one federal program, when they actually worked on multiple programs.
- One employee's time was reported on time studies; however, according to the employee's supervisor, the time studies were not representative of the employee's work assignments. In addition, the supervisor indicated that the employee's work was coded to one federal program in the state's personnel/payroll system, when approximately one-third of their time was spent on another program.
- One employee's payroll costs for a special project exceeded the maximum allowed by an interagency agreement with the Minnesota Department of Education.

Second, the department continued to make significant manual adjustments to its payroll transactions to adjust the transactions resulting from the default funding allocations to more accurately account for time charged to federal programs based on the time study reports. Manual adjustments create additional workload for the department and increase the risk of error. The department should set the personnel/payroll system's default allocations to more closely match employees' assignments. The department needs to review and assess its initial allocation of payroll expense budgets to minimize the need for manual adjustments.

Finally, the department did not properly set up its approval authorizations in the state's online employee time-entry system. The department did not properly designate the responsibility for employee timesheet review resulting in a large number of exceptions reported on the *Self Service Time Entry Audit Report*. Each pay period, the department must review these exceptions and determine whether employees and supervisors properly recorded and approved the payroll charges.

Recommendation

- *The department should provide oversight of its payroll process and continue to work toward full compliance with federal and state requirements for documenting time charged to specific programs by:*
 - *certifying employees time charged to a single federal program in a timely manner;*
 - *performing and accurately documenting time studies for employees working on multiple programs;*
 - *assessing and establishing accurate funding sources for individual employees in the state's personnel/payroll system to reduce the need for payroll adjustments; and*

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-- reviewing and modifying its primary and backup approval assignments within the Self-Service Time Entry System to accurately reflect true responsibilities and to minimize the number of errors reported each pay period.

This report is intended for the information and use 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 22, 2007.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

End of Fieldwork: February 2, 2007

Report Signed On: March 19, 2007

**Status of Prior Audit Issues
As of February 2, 2007**

Prior Audits

March 13, 2006, Legislative Audit Management Letter (Report 06-07) examined the Department of Health's activities and programs material to the Single Audit for the year ended June 30, 2005. The scope included two federal programs: Special Supplemental Nutrition Program for Women, Infants and Children and Centers for Disease Control and Prevention – Investigations and Technical Assistance. The report contained five findings. The department did not resolve two of the issues. We repeated them as Finding 1 in the current report.

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 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.

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 19, 2007

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 2006.

Recommendation:

The department should provide oversight of its payroll process and continue to work toward full compliance with federal and state requirements for documenting time charged to specific programs by:

- certifying employees time charged to a single federal program in a timely manner;
- performing and accurately documenting time studies for employees working on multiple programs;
- assessing and establishing accurate funding sources for individual employees in the State's personnel/payroll system to reduce the need for payroll adjustments; and
- reviewing and modifying its primary and backup approval assignments within the Self-Service Time Entry System to accurately reflect true responsibilities and to minimize the number of errors reported each pay period.

Response:

The department concurs with this recommendation and will take the following steps to fully resolve the finding within available resources:

- establish and implement a reminder process and a follow up tracking system for those employees that are working on a single federal program;
- establish a follow up process to assure those employees who are required to complete time studies have met the minimal federal requirement;
- look at the timeliness of the current process for reviewing and adjusting the roster of employees in the payroll system and the current method of adjusting for payroll costs;
- will review the approval assignments and make the corresponding corrections as necessary.

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Mr. James R. Noble

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The department has assigned Mr. David Hovet, Director of Finance and Facilities Management Division and Jody O'Malley, Director of the Human Resources Division to coordinate these actions with the Assistant Division Directors of the Operating Divisions.

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

Sincerely,

A handwritten signature in cursive script that reads "Dianne Mandernach". The signature is written in black ink and is positioned above the printed name and title.

Dianne M. Mandernach

Commissioner

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