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

Management Letter

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**Department of Health**

**Fiscal Year Ended June 30, 1999**



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**MARCH 2, 2000**

**00-04**

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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 fifty 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 and one best practices review.

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, evaluation, or best practices review, please contact us at 651-296-4708 or by e-mail at [auditor@state.mn.us](mailto:auditor@state.mn.us)



## Summary

Management Letter

### Department of Health

Fiscal Year Ended June 30, 1999

#### Key Findings and Recommendations:

- The department did not ensure that its subrecipients took prompt corrective action on audit findings. The department should follow up with subrecipients on audit findings to ensure subrecipients appropriately resolve reported issues. (Finding 1, page 2)
- The department did not conduct a management evaluation of each local WIC agency at least once every two years. The department should conduct management evaluations of all local WIC agencies within the required time period. (Finding 2, page 3)
- The department did not liquidate all federal obligations of the BCCED program within 90 days of the end of the funding period. The department should liquidate all federal obligations within required time frames, or obtain an extension of established deadlines from the appropriate federal agency. (Finding 3, page 3)
- The department did not establish procedures to monitor provider billings to ensure providers pursue third party payments prior to billing the department. The department should establish a process to monitor provider billings to ensure that providers either pursue third party payments or document that identified coverage does not cover the applicable services. (Finding 4, page 4)

**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 1999 audit, our work at the Department of Health focused on the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and the Breast and Cervical Cancer Early Detection Program (BCCED). The department's response to our recommendations is included in the report.

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### Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Scott Tjomsland, CPA	Auditor-in-Charge
Michael Willis	Auditor
April Snyder	Auditor

### Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Department of Health at the exit conference held on February 18, 2000:

Agnes Leitheiser	Assistant Commissioner
David Johnson	Assistant Commissioner
David Hovet	Director of Financial Management
Betsy Clark	Director, WIC Program
Pati Maier	Assistant Director, Division of Family Health
Mary Manning	Assistant Director, Division of Disease Prevention and Control



**OFFICE OF THE LEGISLATIVE AUDITOR**  
**STATE OF MINNESOTA • James Nobles, Legislative Auditor**

Representative Dan McElroy, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Jan Malcolm, Commissioner  
Department of Health

We have performed certain audit procedures at the Department of Health as part of our audit of the general purpose financial statements of the State of Minnesota as of and for the year ended June 30, 1999. We also have audited selected 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*. We emphasize that this has not been a comprehensive audit of the Department of Health.

Table 1 identifies the financial activities within the Department of Health that were material to the state's financial statements. We performed certain audit procedures on these activities as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 1999, were free of material misstatement.

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**Table 1**  
**Activities Material to the State's Financial Statements**  
**Fiscal Year 1999**

	<u>Amount</u>
Revenue Programs	
WIC Rebates	\$16,021,820
Expenditure Programs	
WIC (Food Costs & Administrative Grants)	\$55,489,973

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1999.

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## Department of Health

Table 2 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.

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**Table 2**  
**Major Federal Programs Administered by the Department of Health**  
**Fiscal Year 1999**

<u>Program Name</u>	<u>CFDA</u>	<u>Federal</u>
Woman, Infants and Children (WIC)	10.577	\$62,574,183
Breast and Cervical Cancer Early Detection (BCCED)	93.919	\$ 2,948,663

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Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1999.

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We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Conclusions

Our December 1, 1999, report included an unqualified opinion on the State of Minnesota's general purpose financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 1999. In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 1999, 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. At a later date, 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.

### **1. PRIOR FINDING NOT RESOLVED: The department did not ensure its subrecipients took prompt corrective action on audit findings.**

The department did not follow up with subrecipients on audit findings related to federal programs. OMB *Circular A-133* ( .400 (d)(5)) requires states to ensure that subrecipients take appropriate and timely corrective action in response to audit findings. The department receives information on subrecipient audits from the annual report titled *Federally Assisted Programs of Subrecipients of the State of Minnesota* produced by the Minnesota Office of the State Auditor. The department also receives copies of individual audit reports of subrecipients with audit findings related to its federal programs; however, the department did not contact subrecipients to resolve the audit findings. Instead, the

## Department of Health

department relied on prior issue follow up procedures performed by independent auditors of subrecipients to ensure findings were corrected.

### *Recommendation*

- *The department should follow-up with subrecipients on audit findings to ensure subrecipients appropriately resolve report issues.*

### **2. The department did not conduct a management evaluation of each local WIC agency at least once every two years.**

The department failed to conduct a management evaluation of seventeen of its local WIC agencies during the two-year period ending September 30, 1999. The Code of Federal Regulations title 7, section 246.19 (b)(3) states “The state agency shall conduct monitoring reviews of each local agency at least once every two years.” A local agency may be a county, municipality, community health center, Indian reservation, or other organization under contract with the department to administer the WIC program. Local agencies are responsible for determining the eligibility of individuals participating in the WIC program.

### *Recommendation*

- *The department should conduct management evaluations of all local WIC agencies within the required time period.*

### **3. The department did not liquidate all federal obligations of the BCCED program within 90 days of the end of the funding period.**

The department had unliquidated federal obligations of the BCCED program more than 90 days after the end of the funding period. The Code of Federal Regulations title 45, section 92.23 (b) states “A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period. The federal agency may extend this deadline at the request of the grantee.” The department receives annual grants from the Centers for Disease Control, Department of Health and Human Services. Grant funding periods begin August 15 and end August 14 of the subsequent year. On November 24, 1999, the department submitted a Financial Status Report (FSR) that reported about \$573,000 of unliquidated federal obligations for the period ending August 14, 1999. The preliminary FSR for the period ending August 14, 1998, submitted November 18, 1998, reported about \$150,000 of unliquidated federal obligations. On September 1, 1999, the department submitted a final 1998 FSR that reported no unliquidated obligations. The department did not obtain an extension of the deadline from the federal agency for either grant.

## Department of Health

### *Recommendation*

- *The department should liquidate all federal obligations within required time periods, or obtain an extension of established deadlines from the appropriate federal agency.*

#### **4. The department did not establish procedures to monitor provider billings to ensure providers pursue third party payments prior to billing the department.**

The Breast and Cervical Cancer Early Detection program is the payer of last resort. Currently, the department has no process to determine if a provider has attempted to collect from third parties. We noted several instances in which patient enrollment forms indicated that the patient had health insurance. When billing the department for services provided to that patient, the provider billing indicated no amount paid by insurance. We are unable to determine if insurance was collected, or not, and if the program was the payer of last resort in those instances. The program is designed to provide services to eligible women who are either uninsured or underinsured. If a patient's insurance coverage is inadequate to cover applicable services, the provider should support that determination.

### *Recommendation*

- *The department should establish a process to monitor provider billings to ensure that providers either pursue third party payments or document that identified coverage does not cover the applicable services.*

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 2, 2000.

/s/ James R. Nobles

James R. Nobles  
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: January 21, 2000

Report Signed On: February 28, 2000



## Department of Health

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### Status of Prior Audit Issues As of January 21, 2000

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**March 18, 1999, Legislative Audit Report 99-20** examined the department's activities and programs material to the State of Minnesota's general purpose financial statements or the Single Audit for the year ended June 30, 1998. The report contained four findings. The Department of Health resolved three of the findings. However, the department had not yet resolved one finding, which is repeated as Finding 1 in this 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*

February 24, 2000

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

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 1999.

***Recommendation:***

The department should follow-up with subrecipients on audit findings to ensure subrecipients appropriately resolve report issues.

***Response:***

The department concurs with the recommendation and will assign staff to complete the necessary follow-up for the 1998 and 1999 report on "Federally Assisted Programs of Subrecipients of the State of Minnesota" by June 30, 2000.

***Recommendation:***

The department should conduct management evaluations of all local WIC agencies within the required time period.

***Response:***

The department agrees with the facts presented. During the last half of federal fiscal 1999, the WIC Program revised the monitoring tools used to do local agency reviews so not all the

Mr. James R. Nobles  
Page 2  
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***Response (continued):***

required reviews were completed. We scheduled this revision after the federal review in March 1999 so that all local monitoring reviews would be completed for the two-year cycle that coincides with the next federal review. Reviews which were not done are being completed now, as well as reviews due now. All reviews will be completed by September 30, 2000.

***Recommendation:***

The department should liquidate all federal obligations within required time periods, or obtain an extension of established deadlines from the appropriate federal agency.

***Response:***

The department will make an effort to liquidate all federal obligations within the required time period. The department will require the grant manager and the grant specialist to monitor the deadline date and request the needed extension within the required time frame.

***Recommendation:***

The department should establish a process to monitor provider billings to ensure that providers either pursue third party payments or document that identified coverage does not cover the applicable services.

***Response:***

The department concurs with the audit report recommendation. The department will develop a process to sample providers that do not provide documentation of pursuing third party payors, or that do not document that identified coverage does not cover the applicable services.

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

Sincerely,

/s/ David Johnson

David Johnson  
Assistant Commissioner