



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Health
Fiscal Year Ended June 30, 2000



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

Department of Health

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Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Tom Donahue, CPA	Audit Manager
Patrick Phillips, CPA	Auditor-in-Charge
Theresa Hahn	Auditor

Exit Conference

This report was discussed with the following staff of the Department of Health at the exit conference held on February 20, 2001:

David Johnson	Assistant Commissioner
Dave Hovet	Director of Financial Management
Janet Olstad	Assistant Division Director
Linda Dorsey	WIC Program Unit Supervisor

Report Summary

Key Findings and Recommendations:

- ◆ The department did not promptly deposit WIC vendor refunds. The department should direct WIC vendor refunds to the financial services cashier for daily deposit. (Finding 1, page 3)
- ◆ WIC reconciliations of food instruments were not performed within 150 days of the first valid date for participant use. The department should monitor the reconciliation process to ensure compliance within the required 150-day time period. (Finding 2, 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 2000 audit, our work at the Department of Health focused on the state Medical Education and Research Costs Trust Fund (MERC) and the federal Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). The department's response to our recommendations is included in the report.



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, 2000. 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, 2000, were free of material misstatement.

Table 1
Activities Material to the State’s Financial Statements
Fiscal Year 2000

	<u>Amount</u>
Revenue Programs	
WIC Rebates	\$17,163,540
Expenditure Programs	
WIC (Food Costs and Administrative Grants)	\$56,028,808
Medical Education and Research Costs (MERC) ⁽¹⁾	\$15,001,346

⁽¹⁾ MERC was established in 1996 to provide funding for the clinical training of selected medical professions.

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

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Table 2 identifies the State of Minnesota's major federal program administered by the Department of Health. We performed certain audit procedures on this program 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 a major federal program.

Table 2
Major Federal Program Administered by the Department of Health
Fiscal Year 2000

<u>Program Name</u>	<u>CFDA</u>	<u>Expenditure</u>
Women, Infants, and Children (WIC)	10.577	\$64,218,649

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2000.

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, 2000, 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, 2000. In accordance with *Government Auditing Standards*, we also issued our report, dated December 1, 2000, 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.

Our work at the Department of Health identified the following internal control weaknesses or instances of noncompliance with finance-related legal provisions.

1. The department did not promptly deposit WIC vendor refunds.

The department did not deposit vendor refunds exceeding \$250 on a daily basis. Minn. Stat. Section 16A.275, subd. 1 states that, "An agency shall deposit receipts totaling \$250 or more in the state treasury daily." The employee responsible for preparing the vendor refund deposits was not aware of this requirement and, therefore, routinely held receipts for a period of time before forwarding them to financial services for deposit. The department does have a department-wide policy to ensure that receipts are deposited daily.

Recommendation

- *The department should direct WIC vendor refunds to the financial services cashier for daily deposit.*

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2. WIC reconciliations of food instruments were not performed within 150 days of the first valid date for participant use.

The department contracted with PDA, Inc. to provide a distributed food delivery and management information system. Under the contract, PDA, Inc. was responsible to reconcile redeemed vouchers to voucher issuance records. As a part of the reconciliation process, PDA, Inc. provided monthly closeout error listing reports to the local WIC agencies and the department. The report listed those vouchers that were redeemed but had no record of issuance. The local agencies were to provide PDA, Inc. with explanations for the discrepancies. However, according to department staff, PDA, Inc. experienced a system software error that has rendered the closeout error report unreliable. As a result, the local agencies were not verifying the issuance information, and the department was not in compliance with applicable federal regulations.

According to the Code of Federal Regulations, reconciliation of food instruments shall be performed within 150 days of the first valid date for participant use and shall be in accordance with the financial management requirements of Section 246.13.

Recommendation

- *The department should monitor the reconciliation process to ensure compliance within the required 150-day time period.*

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 1, 2001.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 5, 2001

Report Signed On: February 26, 2001

**Status of Prior Audit Issues
As of December 22, 2000**

March 2, 2000, Legislative Audit Report 00-04 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, 1999. The report contained four findings. The Department of Health resolved all four of the findings.

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 21, 2001

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
State of Minnesota
Room 140 Centennial Building
658 Cedar St
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 the state fiscal year 2000.

Recommendation:

The department should direct WIC vendor refunds to the financial services cashier for daily deposit.

Response:

The department concurs with the audit report recommendation and corrective action has already been taken to assure that deposits are made whenever the daily total of checks is \$250 or more. The WIC director, Betsy Clarke, will assure that the staff assigned to the cashier function will prepare and submit daily deposits to the financial services cashier.

Recommendation:

The department should monitor the reconciliation process to ensure compliance within the required 150-day time period.

Response:

The department acknowledges the finding but also states that this event was related to a data system design problem that has been corrected. The department identified this problem prior to the audit and required the contractor to correct the problem. System testing by a quality assurance contractor has demonstrated that the system design problem was corrected.

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

Sincerely,

/s/ Jan Malcolm

Jan K. Malcolm
Commissioner