



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Health
Fiscal Year Ended June 30, 2001



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.

This document can be made available in alternative formats, such as large print, Braille, or audio tape, by calling 651-296-1727 (voice), or the Minnesota Relay Service at 651-297-5353 or 1-800-627-3529.

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

Table of Contents

	Page
Report Summary	1
Management Letter	2
Status of Prior Audit Issues	7
Department of Health's Response	8

Audit Participation

The following members of the Office of the Legislative Audit 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 March 4, 2002:

David Hovet	Director, Financial Management
Pati Maier	Assistant Director, Division of Family Health
Betsy Clarke	Manager, WIC Program
Scott Leitz	Director, Health Economics Program
Randy Kirkendall	Manager, Tobacco Prevention and Control Section
Diane Rydrych	MERC Program Director
Gail Christiansen	Management Analyst 4

Report Summary

Key Findings and Recommendations:

- The department did not adequately document its approval process for some tobacco settlement grant expenditures. The department needs to ensure that tobacco settlement grant invoices are properly reviewed and authorized before making payment. (Finding 1, page 3)
- The department did not timely disburse Medical Education and Research Cost (MERC) funds. The department should calculate the allocation of MERC funds to its sponsoring organizations prior to the receipt of MERC funds from the Department of Human Services to facilitate timely subsequent payments. (Finding 2, page 4)
- The department did not receive reimbursement on overcharged WIC vouchers within 30 days of request. The department should work with specific vendors to ensure that all overcharges are received within 30 days from the request. (Finding 3, 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 2001 audit, our work at the Department of Health focused on the state Medical Education and Research Costs Fund, Tobacco Use Prevention and Local Public Health Endowment Fund, and the federal Special Supplemental Nutrition Program for Women, Infants, and Children. The department's response to our recommendations is included in the report.



Senator Ann H. Rest, 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, 2001. 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, 2001, were free of material misstatement.

Table 1
Activities Material to the State's Financial Statements
Fiscal Year 2001

	Amount
Revenue Programs	
Women, Infants, and Children (WIC) Rebates	\$19,351,004
Expenditure Programs	
WIC (Food Costs and Administrative Grants only) ⁽¹⁾	\$61,171,798
Medical Education and Research Costs (MERC) ⁽²⁾	\$31,566,926
Tobacco Use Prevention and Local Public Health Endowment	\$12,791,590

⁽¹⁾ Represents food costs and grants to local agencies to administer their WIC programs. Total WIC expenditures for fiscal year 2001 were \$66,592,395, as shown in Table 2.

⁽²⁾ MERC was established in 1996 to provide funding for the clinical training of selected medical professions. Included in total is Prepaid Medical Assistance Program money totaling \$4,441,818, which began in 2001.

Source: *State of Minnesota Comprehensive Annual Financial Report* and the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2001.

Department of Health

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 2001

<u>Program Name</u>	<u>CFDA</u>	<u>Expenditure</u>
Women, Infants, and Children (WIC) ⁽¹⁾	10.577	\$66,592,395

⁽¹⁾ Represents total costs of the program, including salaries, professional/technical services, and other operating costs not shown in Table 1.

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2001.

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.

Conclusions

Our December 7, 2001, 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, 2001. In accordance with *Government Auditing Standards*, we also issued our report, dated December 7, 2001, 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 2002, 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 work at the Department of Health, we identified the following internal control weaknesses or instances of noncompliance with finance-related legal provisions.

1. The department did not adequately document its approval process for some tobacco settlement grant expenditures.

The department did not adequately review tobacco settlement grantee invoices to determine if expenditures were appropriate. The grant agreements named a specific department employee who should authorize the payments. This person delegated the responsibility to the grant managers. However, four of the seven invoices tested did not contain a manager's signature. Without an authorizing signature, the department could pay for costs that were not appropriate under the grant agreement.

Department of Health

Recommendation

- *The department needs to ensure that tobacco settlement grant invoices are properly reviewed and authorized before making payment.*

2. The department did not disburse Medical Education and Research Cost (MERC) funds in a timely manner.

The department did not timely disburse Medical Education and Research Cost (MERC) funds to 18 approved sponsoring institutions. The department did not calculate the amount to be allocated to the sponsoring institutions until after it had received the MERC funds from the Department of Human Services. As a result, the department held the MERC funds for approximately three weeks before they were disbursed to the sponsoring institutions.

Through an interagency agreement with the Department of Human Services (DHS), the Department of Health is able to leverage its MERC money by approximately 100 percent. Currently, the commissioner of DHS is authorized to seek federal financial participation in payments for medical education and research costs per Minn. Stat. (2001) Section 62J.692, Subd. 8. To accomplish this, Health transferred \$13,261,465 to DHS in fiscal year 2001. As a result, DHS was able to secure an additional \$13,863,643 in federal medical assistance funds for the MERC program. On June 4, 2001, DHS sent a check in the total amount of \$27,125,108 to Health for distribution to its sponsoring institutions.

However, the department did not calculate the amount to be allocated to the 18 approved, sponsoring institutions until after it had received the check. The department disbursed MERC funds to the sponsoring organizations on June 26, 2001.

The department should minimize the time elapsing between the transfer of federal funds from the U. S. Treasury and the disbursement of funds for program purposes as defined in Treasury regulations at 31 CFR part 205.7.

Recommendation

- *The department should calculate the allocation of MERC funds to its sponsoring organizations prior to the receipt of MERC funds from DHS to facilitate subsequent payments.*

3. The department did not receive reimbursement on overcharged WIC vouchers within 30 days of request.

Certain WIC vendors are not reimbursing the department for overcharged WIC vouchers within the 30-day request period. One significant vendor is repeatedly late in remitting overcharges, and we noted some overcharges that were over six months past due.

Department of Health

The vendor agreement provides that, “The Vendor shall pay to the commissioner, within 30 days of a request by the commissioner the amount of any overcharges paid by the commissioner to the Vendor...” Currently, the department has a process in place to identify vendor overcharges and follows up with a letter to the vendor requesting review of the transactions. If there is no disagreement regarding the overcharge, amounts should be repaid within 30 days of the letter. If they disagree, they must contact the department to explain their disagreement.

We noted one large vendor that appears to have an ongoing problem with reimbursing the department for the overcharges within the 30-day period. The department indicated this is a high volume company that has many stores and usually submits the overages from its stores at one time.

Recommendation

- *The department should work with specific vendors in noncompliance to ensure that the overcharges are received within 30 days from the request.*

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 14, 2002.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 7, 2001

Report Signed On: March 11, 2002

**Status of Prior Audit Issues
As of December 7, 2001**

February 12, 2001, Legislative Audit Report 01-04 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, 2000. The report contained two findings. The Department of Health resolved both 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.

MINNESOTA

MDH

DEPARTMENT OF HEALTH

Protecting, maintaining and improving the health of all Minnesotans

March 8, 2002

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 2001.

Recommendation:

The department needs to ensure that tobacco settlement grant invoices are properly reviewed and authorized before making payment.

Response:

Tobacco settlement grantee invoices have always been received prior to payment; however, grant managers did not always sign the invoices to document their review. We instituted a policy in July of 2001 that grant managers must document their review of grantee invoices with a signature or initials before the invoices are submitted for payment.

Recommendation:

The department should calculate the allocation of MERC funds to its sponsoring organizations prior to the receipt of MERC funds from DHS to facilitate subsequent payments.

Mr. Nobles
Page 2
March 8, 2002

Response:

The department concurs that the information presented in finding 2 is accurate. The department has already taken steps to limit the length of time between when funds are received from the Department of Human Services and disbursement of funds to sponsoring institutions, and will seek to implement the report's recommendation. One factor that potentially may limit the department's ability to fully implement the recommendation contained in the report is a language contained in H0351, which passed into law on February 28, 2002. In this bill, proceeds from the University of Minnesota's tobacco endowment are transferred to the department to partially finance the medical education and research cost fund. After federal matching funds on these proceeds are received, the University receives payment equal to the original transfer plus interest at a rate equal to the average earning paid on the tobacco endowment. Since the number of days required to receive federal matching funds is unknown in advance, the amount of interest earned, and therefore the exact dollar amount of payment to the University and to the sponsoring institutions, is also not known. As a result, it is possible the department will need to determine the amount of interest paid to the University prior to determining the amount to be paid to sponsoring institutions, which will likely result in a delay in disbursement of MERC funds. It is the department's intention to seek ways to minimize any potential delay and to implement, to the extent possible under law, the recommendation contained in the report.

Recommendation:

The department should work with specific vendors in non-compliance to ensure that the over-charges are received within 30 days from the request.

Response:

The MDH WIC staff make every effort to collect on overpriced vouchers within 30 days. In most cases, there is a speedy resolution to the claim. Unfortunately, in a few instances the stores do not respond to these requests as quickly as we would like. In such cases, the WIC staff send out reminder notices and periodically call the stores to obtain reimbursement. Because there is currently no sanction in our rules for failure to respond promptly to our request for reimbursement, our ability to receive payment within the 30-day period is somewhat limited. We are currently in the process of revising our WIC rules in accordance with changes in the federal regulations. Based on the recommendation of the legislative auditor, we will add a sanction in the revisions to our rules for stores which fail to respond within the 30-day time period. We anticipate that the revised rules will be completed no later than early 2003.

Mr. Nobles
Page 3
March 8, 2002

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

Sincerely,

/s/ Julie Brunnel for

Jan K. Malcolm
Commissioner
P.O. Box 64882
St. Paul, MN 55164-0882