



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Management Letter

Department of Health
Fiscal Year Ended June 30, 2002



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	4
Agency Response	5

Audit Participation

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

Claudia Gudvangen, CPA	Deputy Legislative Auditor
Jeanine Leifeld, CPA	Audit Manager
Alan Sasse, CPA	Auditor-in-Charge
Linda Pha	Auditor

Exit Conference

We discussed the results of the audit with the following staff of the Department of Health at an exit conference on February 7, 2003:

David Hovet	Financial Management Director
Mark Bergquist	Federal Grants Administrator
Janet Olstad	Assistant Director, Family Health Division
Betsy Clarke	WIC Program Manager

Report Summary

Finding and Recommendation:

- The department charged \$1,102 in WIC program expenditures to the wrong federal fiscal year award. The department needs to put processes in place to ensure that federal expenditures are properly coded. (Finding 1, page 3)

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 2002 audit, our work at the Department of Health focuses on the federal Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the federal HIV Care Formula Grant. The department's response to our recommendation is included in the report.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Senator Ann H. Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dianne Mandernach, Commissioner
Department of Health

We 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* as of and for the year ended June 30, 2002. 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 a major federal program.

Table 1
Major Federal Programs Administered by the Department of Health
Fiscal Year 2002

<u>Program Name</u>	<u>CFDA</u>	<u>Total Federal Expenditures</u>
Women, Infants, and Children (WIC)	10.577	\$72,358,910
HIV Care Formula Grants	93.917	\$ 3,069,532

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 2002.

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 6, 2002, report included an unqualified opinion on the State of Minnesota's basic financial statements included in its Comprehensive Annual Financial Report for the year ended June 30, 2002. In accordance with *Government Auditing Standards*, we also issued our report,

Department of Health

dated December 6, 2002, 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 2003, 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 instance of noncompliance with finance-related legal provisions.

1. The department charged expenditures to the wrong federal fiscal year award.

The department charged \$1,102 in federal Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) expenditures to the wrong federal fiscal year award. In two of twelve transactions we tested, the department applied the expenditures to the federal fiscal year 2001 award, even though they were federal fiscal year 2002 obligations. One transaction was \$877 for a technology conference that took place in December 2001, and the other was \$225 for a meeting that took place in November 2001.

The department did not comply with the federal period of availability of funds for these two transactions. The federal Department of Agriculture, which administers the WIC program, allows grantees to use funds between award years, through a spend-forward or back-spend option. However, the department did not obtain special federal approval to use either of those options for the two transactions.

Recommendations

- *The department should review disbursements coded back to federal fiscal year 2001 after September 30, 2001, for miscodings. If the amount is determined to be material, it should work with the federal government to resolve the miscoded items.*
- *The department should put processes in place to ensure that expenditures are charged to the appropriate federal fiscal year award.*
- *The department should seek federal approval, if necessary, to use the spend-forward or back-spend options when using funds between award years.*

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 February 21, 2003.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA
Deputy Legislative Auditor

End of Fieldwork: January 10, 2003

Report Signed On: February 18, 2003

Status of Prior Audit Issues As of January 10, 2003

March 14, 2002, Legislative Audit Report 02-17 examined the department's activities and programs material to the State of Minnesota's basic financial statements or the Single Audit for the year ended June 30, 2001. The report contained three findings. The Department of Health resolved the third finding relating to WIC vendors not reimbursing the department for overcharged WIC vouchers within the 30-day request period. The first and second findings were regarding the tobacco settlement grant and the medical education and research cost funds. These findings were not relevant to the objectives of our current audit and, as a result, we did not pursue the status as part of this audit.

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.

February 18, 2003

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 2002.

Recommendation:

- The department should review disbursements coded back to federal fiscal year 2001 after September 30, 2001 for miscodings. If the amount is determined to be material, it should work with the federal government to resolve the miscoded items.
- The department should put processes in place to ensure that expenditures are charged to the appropriate federal fiscal year award.
- The department should seek federal approval, if necessary, to use the spend-forward or back-spend options when using funds between award years.

Response:

The department reviewed all the payment transactions that occurred in December 2002, related to Federal Fiscal 2002 and found no other transactions that were miscoded. The department believes that the transactions found by the auditor were isolated errors and are not material question costs.

Mr. Nobles
Page 2
February 18, 2003

The department has further established processes whereby funds are encumbered for each conference, training session or meeting at the time approval is requested. This eliminates the guesswork at the time the payment is made as to which state fiscal year the payment should occur.

Finally, the department has contacted the Federal Government as to the correct steps to take in resolving this issue.

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

Sincerely,

/s/ David A. Johnson

David A. Johnson
Assistant Commissioner
P.O. Box 64882
St. Paul, MN 55164-0882