



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

Financial Audit Division Report

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**Department of Health**  
**Fiscal Years 2001 through 2003**



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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 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](mailto:auditor@state.mn.us)



## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Representative Tim Wilkin, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Dianne Mandernach, Commissioner  
Department of Health

We have audited selected areas of the Minnesota Department of Health for the period July 1, 2000, through June 30, 2003. Our audit scope was limited to grant and payroll expenditures, and licensing receipts from healthcare-related facilities and service agencies. The Report Summary highlights our overall audit conclusions. The specific audit objectives and conclusions are contained in the individual chapters of this report.

We selected the department for audit based on our annual assessment of state agencies and programs. We used various criteria to determine the entities to audit, including the size and type of each agency's financial operations, length of time since the last audit, changes in the organizational structure and key personnel, and available audit resources.

We conducted our audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of the department's internal controls relevant to the audit objectives. We used the guidance contained in *Internal Control-Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. The standards also require that we plan the audit to provide reasonable assurance that the Department of Health complied with finance-related legal provisions that are significant to the audit. In determining the department's compliance with legal provisions, we considered requirements of laws, regulations, contracts, and grant agreements.

To meet the audit objectives, we gained an understanding of the department's financial policies and procedures relevant to our audit scope. We considered the risk of misstatements in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. On a test basis, we examined evidence supporting the department's internal controls and compliance with laws, regulations, contracts, and grant provisions.

/s/ James R. Nobles

James R. Nobles  
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen, CPA  
Deputy Legislative Auditor

End of Fieldwork: April 9, 2004

Report Signed On: June 14, 2004

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### **Audit Participation**

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

|                           |                            |
|---------------------------|----------------------------|
| Claudia Gudvangen, CPA    | Deputy Legislative Auditor |
| Jeanine Leifeld, CPA,CISA | Audit Manager              |
| Susan Rumpca, CPA         | Auditor-in-Charge          |
| Gena Hoffman              | Auditor                    |
| Pat Ryan                  | Auditor                    |
| Ellen Sibley, CPA, CIA    | Auditor                    |

### **Exit Conference**

We discussed the findings and recommendations in this report with the following staff of the Department of Health on June 3, 2004.

|                  |                                                                       |
|------------------|-----------------------------------------------------------------------|
| Agnes Leitheiser | Assistant Commissioner                                                |
| Mark Schoenbaum  | Grants Administrator                                                  |
| Ron Olson        | Human Resources Director                                              |
| David Hovet      | Financial Management Director                                         |
| Cecelia Jackson  | Director for Operations, Facility and<br>Provider Compliance Division |

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## Report Summary

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### Key Findings:

- The department charged salaries to some state and federal programs without documenting that the employees were actually working on those programs. The department also moved payroll costs between programs after the fact, without sufficient support. (Finding 2, page 8)
- The department did not keep incoming license fees safe until they were deposited and did not make sure that all license receipts got deposited. (Finding 4, page 12)

### Other Findings:

- Several department employees can change both personnel and payroll data, which does not provide for an adequate separation of these duties. (Finding 3, page 10)
- The department did not make grant applicants send in documents showing that they used competitive bidding to select hospital improvement contractors. State law requires the department to ask for this documentation. (Finding 1, page 6)

|                                                                                                                                              |
|----------------------------------------------------------------------------------------------------------------------------------------------|
| <p>The report contained a total of 4 findings relating to internal control and legal compliance. None of the findings were prior issues.</p> |
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### Audit Scope:

Audit Period: The three years ended June 30, 2003

### Programs Audited:

- Grant Expenditures
  - Payroll Expenditures
  - Selected Licensing Receipts:
    - Healthcare-Related Facilities
    - Service Agencies
- 

### Agency Background:

The Department of Health administers several large state and federal programs for health promotion, disease prevention and control, and facility and provider compliance. During the audit period, the department spent over \$1 billion, with about 42 percent (\$414 million) for grants and about 22 percent (\$236 million) for payroll costs.

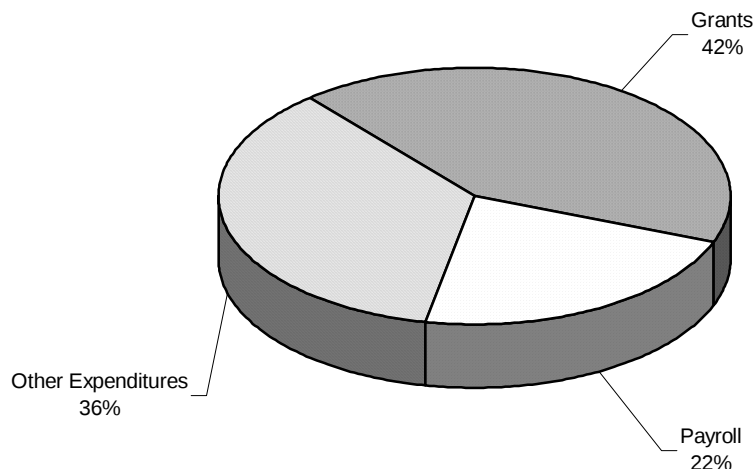
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## Chapter 1. Introduction

The mission of the Department of Health is to protect, maintain, and improve the health of all Minnesotans. Its responsibilities include monitoring disease trends and detecting and investigating disease outbreaks, researching the causes of illnesses and operating programs to prevent diseases from occurring, providing laboratory services to support public health and environmental programs, helping people make healthier lifestyle choices, safeguarding the quality of health care by setting and enforcing standards for the people and institutions providing that care, and safeguarding the quality of restaurant food, drinking water, and air.

The department is funded through a variety of sources. It receives appropriations from the General Fund, the Health Care Access Fund, the Medical Education and Research Fund, and Tobacco Use Prevention Fund. It also gets federal grants and collects license and registration fees from healthcare-related facilities and service agencies. During the three fiscal years ended June 30, 2003, the department spent over \$1 billion. As shown in Figure 1-1, payroll and grant expenditures account for about 64 percent of the department's total expenditures. Other expenditures include payments to individuals, professional and technical services, indirect costs, rent, and supplies.

**Figure 1-1**  
**Department of Health Expenditures**  
**Fiscal Years 2001-2003**



Source: State of Minnesota's accounting system (MAPS) for budget fiscal years 2001, 2002, and 2003 through September 5, 2003.

## **Department of Health**

The department employs about 1,300 people who are located throughout the state. It is organized into bureaus, each having divisions with programmatic related activities. During the majority of the period covered by our audit, the department was under the leadership of Jan Malcolm. Dianne Mandernach was appointed Commissioner of Health on February 3, 2003.

Our audit included a review of selected financial activities of the Minnesota Department of Health, focusing on grant expenditures, payroll expenditures, and licensing receipts from healthcare-related facilities and service agencies. The following report chapters discuss our review of internal controls and compliance with significant laws, policies, and procedures for these areas.

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## Chapter 2. Grant Expenditures

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### *Chapter Conclusions*

*For the items tested, the Department of Health adequately publicized the availability of grant funds and used an open and impartial process for awarding grant funds. The department adequately monitored grantee activities to ensure that grant funds were used in accordance with legal requirements and grant provisions. The department had procedures in place to ensure that it paid only authorized grantees, and that the payments were made in compliance with grant agreements and other applicable finance-related legal provisions. However, the department did not comply with one statutory requirement for Rural Hospital Capital Improvement grants. The department accurately recorded grant expenditures in the state's accounting system.*

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The Department of Health provides grants to hospitals, community health organizations, local governments, higher education institutions, and nonprofit organizations. Most of the grants administered by the department are awarded competitively, requiring potential grantees to submit proposals addressing how the organization will use the grant funds. Members of a review team evaluate the proposals and select the grant recipients. During the three-year audit period, the department provided over \$414 million in grant funding to a variety of entities and programs. Table 2-1 shows grant expenditures by fund and fiscal year.

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**Table 2-1**  
**Grant Expenditures by Fund**  
**Fiscal Years 2001, 2002, and 2003**

| <u>Fund</u>                  | <u>2001</u>          | <u>2002</u>          | <u>2003</u>          |
|------------------------------|----------------------|----------------------|----------------------|
| General                      | \$ 36,994,251        | \$ 44,250,034        | \$ 27,721,780        |
| Medical Education & Research | 31,564,551           | 48,919,267           | 71,721,042           |
| Tobacco Use Prevention       | 14,285,604           | 18,399,343           | 17,942,613           |
| Federal                      | 20,446,702           | 26,014,319           | 43,945,212           |
| Health Care Access           | 4,456,156            | 5,443,227            | 1,340,515            |
| Other                        | 196,357              | 326,831              | 487,062              |
| Total                        | <u>\$107,943,621</u> | <u>\$143,353,021</u> | <u>\$163,158,224</u> |

Source: Minnesota Accounting and Procurement System (MAPS) for budget fiscal years 2001, 2002, and 2003 through September 5, 2003.

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# Department of Health

## Audit Objectives

The primary objectives of our audit were to answer the following questions:

- Did the department properly award grants by publicizing the availability of grant funds and using an open and impartial process for awarding grant funds?
- Did the department adequately monitor grantees to ensure that grant funds were expended in accordance with legal requirements and grant provisions?
- Did the department have procedures in place to ensure that it paid only authorized grantees and that the payments were made in compliance with grant agreements and other applicable finance-related legal provisions?
- Did the department accurately record grant expenditures in the state's accounting system?

As a result of our audit of grants, we identified one issue of noncompliance, as discussed below.

### **1. The department did not comply with a statutory requirement for Rural Hospital Capital Improvement grantees to submit evidence of competitive bidding.**

The department did not comply with one statutory requirement governing Rural Hospital Capital Improvement grants. The department awards grants to eligible rural hospitals for construction and remodeling projects. Minn. Stat. Section 144.148, Subd. 3 requires that, "Applicants must submit to the commissioner evidence that competitive bidding was used to select contractors for the [capital improvement] project." However, department employees told us that they only asked for such evidence when the grantee's estimated expenditures seemed unreasonable. They did not require the documentation before processing grantee payments. Without this documentation, the risk of making payments to a grantee that did not follow the competitive bidding requirements increases.

#### *Recommendation*

- *The department should obtain evidence of competitive bidding from Rural Hospital Capital Improvement grantees in accordance with Minn. Stat. Section 144.148, Subd. 3, or should seek to change the statutory requirement.*

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## Chapter 3. Payroll Expenditures

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### *Chapter Conclusions*

*We could not determine if the Department of Health allocated payroll expenditures to the appropriate funding sources and properly recorded them in the accounting records. The department did not comply with federal and state requirements for documenting employee payroll costs charged to programs, including the transfer of payroll costs between programs. In addition, the department did not adequately restrict access to the state's human resources and payroll system.*

*The Department of Health provided reasonable assurance that employees were accurately paid in compliance with applicable legal provisions and management's authorizations. For the items tested, the department compensated employees in compliance with the applicable collective bargaining agreements and personnel plans. However, we could not test employee timesheets for the period from July through December 2000, since the department had disposed of those records.*

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The Department of Health's payroll and personnel functions are centralized and are located in the Human Resources Division in Saint Paul. Human Resources Division staff enters personnel transactions into the State Employee Management System (SEMA4). The department's 1,300 employees submit biweekly timesheets and leave slips to their supervisors, who approve them and submit them to Human Resources for processing. Human Resources staff compares the timesheets to the payroll rosters to verify that all employees have timesheets and then enter the payroll transactions into SEMA4.

The department compensates employees according to the provisions of a wide variety of compensation plans and bargaining unit agreements, including:

- American Federation of State, County, and Municipal Employees
- Minnesota Government Engineer's Council
- Minnesota Nurses Association
- Minnesota Association of Professional Employees
- Middle Management Association
- Nonrepresented (Commissioner's) Plan
- Managerial Plan

During the audit period, payroll expenditures totaled \$236 million, of which about \$75 million (32 percent) were federally funded. Table 3-1 shows the types of payroll expenditures during the audit period.

## Department of Health

**Table 3-1**  
**Department of Health**  
**Payroll Expenditure Categories**  
**Fiscal Years 2001 to 2003**

|              | <u>2001</u>         | <u>2002</u>         | <u>2003</u>         |
|--------------|---------------------|---------------------|---------------------|
| Full-Time    | \$69,268,330        | \$72,383,097        | \$81,256,838        |
| Part-Time    | 3,842,545           | 4,317,602           | 4,282,376           |
| Overtime Pay | 356,652             | 180,435             | 151,084             |
| Premium Pay  | <u>57,085</u>       | <u>58,358</u>       | <u>56,726</u>       |
| Total        | <u>\$73,524,612</u> | <u>\$76,939,492</u> | <u>\$85,747,024</u> |

Source: Minnesota Accounting and Procurement System (MAPS) for budget fiscal years 2001, 2002, and 2003 through September 5, 2003.

## Audit Objectives

During our review of payroll expenditures, we focused on the following questions:

- Did the department properly authorize and accurately report payroll expenditures?
- Did the department comply with significant finance-related legal provisions over payroll?
- Did the department charge payroll expenditures to the proper funding sources?

As discussed below, we identified two concerns as a result of our payroll audit.

### **2. The department did not comply with federal and state requirements for documenting time charged to programs, including the transfer of payroll costs between programs.**

The department did not adequately document the basis for payroll costs charged to various programs. As a result, we were unable to determine if the department properly allocated payroll expenditures to the proper funding sources.

Payroll charges to specific programs must be supported by evidence that the employees, in fact, worked on those programs. The federal government addresses this issue in U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. The circular identifies standards for time distribution and payroll documentation for federal programs. The circular states that employees who work on multiple programs must have a salary distribution supported by 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, where employees are expected to work solely on a single federal program, charges for their salaries must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification.

The department used both expense transfers and expenditure corrections on a regular basis as a budgetary tool to transfer payroll costs between state and federal programs. However, support for these transfers and corrections was often inadequate. We noted the following specific instances of noncompliance relating to payroll funding documentation:

## Department of Health

- The department did not comply with federal requirements and department policy for documenting time charged to federal programs. Twelve of the 28 payroll expense transfers and corrections we sampled should have been supported by periodic certifications that the employees worked on a single federal program. However, there were no certifications on file for the employees. In addition, two of the 28 sample items involved employees working on multiple programs. In order to change those employees' payroll funding, the department should have required time studies to support the hours the employees worked on each program. There were no time studies on file for these two sample items.
- The department did not comply with the Department of Finance's policy for payroll expense transfers. According to the policy, "The mass expense transfer transaction is designed to correct a one-time funding problem. It is not to be used to correct a recurring problem." The department used hundreds of mass expense transfers to retroactively move payroll costs between programs each year. Instead, the department should attempt to code all of its positions to the correct expense budgets at the beginning of each year, to minimize the need for retroactive adjustments.
- The department did not always transfer payroll expenses on an employee-by-employee basis. Six of the 17 payroll expense transfer requests did not identify the individual employee payroll charges to be adjusted. Instead, many requests merely cited a total dollar amount of payroll costs to be moved. The Department of Finance's policy for mass payroll expense transfers states that payroll expenses should be transferred on an employee-by-employee basis.
- The department did not always document the reasons employee payroll funding changes were being requested. Fourteen of 28 requests for payroll expense transfers or corrections did not provide sufficient detail about the purpose of the request. Sufficient documentation helps ensure that the transactions are consistent with state or federal requirements.

Using expense transfers and payroll expense corrections as a budgetary tool weakens controls designed to ensure that the department funded payroll in accordance with actual work performed and makes it difficult to determine if employees' time is charged to the appropriate funding source. Inaccurate and undocumented payroll funding could result in unallowable costs and the loss of federal funds.

### *Recommendations*

- *The Department of Health should comply with federal and state requirements for charging payroll to specific programs by:*
  - *establishing multiple funding sources for individual employees in SEMA4, as appropriate, to reduce the need for mass payroll expense transfers,*

## Department of Health

- *completing the periodic certifications for employees charged to a single federal program,*
- *performing and documenting time studies when required,*
- *documenting the reason for transfers of payroll charges between funding sources and how the transfer is consistent with state or federal requirements, and*
- *documenting payroll transfers on an employee-by-employee basis.*

### **3. The department did not adequately separate employee access to the state's payroll and personnel system.**

The department did not adequately separate the human resources' employees access to the state's payroll and personnel system (SEMA4). The department's human resources office performs both human resources and payroll functions. In practice, employees typically perform either human resources or payroll duties. However, seven of these employees have full clearance to enter both payroll and personnel transactions. Three of the employees perform supervisory functions and may not need access to enter these transactions. In addition, one employee enters payroll data for the human resources office and has the ability to change her own data. While it is often necessary and even advisable to have a trained backup, we question the need for all seven employees to have full clearance to both payroll and personnel functions. These employees have the ability to create new employees and pay those employees in SEMA4, which results in increased risk. Without an adequate separation of duties, errors or irregularities in payroll could occur and go undetected. To reduce this risk, the department should consider restricting employees' clearances and put procedures in place to monitor employees' ability to change their own personnel and payroll data.

#### *Recommendation*

- *The Department of Health should properly separate duties over the payroll and personnel functions and ensure that computer system clearances follow this same separation of duties.*

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## Chapter 4. Selected Licensing Receipts

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### *Chapter Conclusions*

***The Department of Health did not adequately control healthcare-related and service agency licensing receipts. The department accurately recorded receipts in the state's accounting records and calculated the fees in compliance with significant finance-related legal provisions.***

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The licensing and certification section within the Facility and Provider Compliance Division issues licenses for boarding care homes, home care and hospice, hospitals, nursing homes, and supervised living facilities. The department establishes license fees that are approved by the Department of Finance and included in Minnesota Rules. These licenses are renewed annually and may be calculated as a flat rate, a percentage of prior year revenues, or as a base rate plus a 'per bed' charge.

According to Minnesota statutes, the fees collected should approximate the cost of administering the program, where practical. As provided by the Laws of Minnesota, 2001 First Special Session, for the two years beginning July 1, 2001, the department waived the license fees for all home care providers who held a current license as of June 30, 2001. The purpose of the waiver was to reduce an accumulated balance in the State Government Special Revenue Fund. During our three-year audit scope period, the department collected over \$14.6 million from healthcare-related facilities and service agencies.

The department records application and fee information in an internal database, which it uses to generate licenses. The department also records receipt information in the state's accounting system (MAPS).

### **Audit Objective**

The primary objective of our audit was to answer the following questions:

- Did the department adequately safeguard receipts and properly deposit them?
- Did the department accurately record all receipts in the state's accounting records?
- Did the department comply with significant finance-related legal provisions?

## Department of Health

As discussed below, we identified one issue relating to controls over these receipts.

### **4. The department did not adequately control licensing receipts.**

The department did not adequately control healthcare-related and service agency licensing receipts. First, the department did not safeguard incoming receipts. The receipts were often left on employee desks and were not always stored in a locked place. To reduce the risk of theft or loss, the department should store receipts in a locked area at all times. Few employees should have access to the locked area.

Second, the department did not limit access to the licensing computer system to ensure an adequate separation of duties between collecting receipts and issuing licenses. The department gave 14 employees system access to enter receipt information and also issue licenses. This increases the risk that employees could generate licenses for facilities that do not pay the required license fee, or that employees could divert license fees and still issue a license to the facility. Good internal controls require that employees who handle cash not have the ability to issue licenses.

Third, the department did not include all components in its receipts reconciliation. The department did not reconcile receipt data recorded on the licensing system to cash deposits or state accounting system (MAPS) records. The department reconciled summary level data on the MAPS input forms to the actual entries in MAPS; however, the reconciliation did not include detail information about individual receipts. Because this reconciliation was not done, the department did not have assurance that it collected the required fees for each license it issued.

### *Recommendations*

- *The Department of Health should reduce the risk of theft or loss by locking up its incoming receipts.*
- *The department should establish computer system security to allow update access to either receipt information or license information, but not both.*
- *The department should reconcile the receipts recorded on the licensing system to the actual cash receipts.*

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## Status of Prior Audit Issues As of April 9, 2004

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### Prior Financial Audit Division Audits

**March 24, 2004; February 21, 2003; and March 14, 2002 Legislative Audit Management Letters (Reports 04-19, 03-08, 02-17, respectively)** examined the Department of Health's activities and programs material to the *State of Minnesota's Comprehensive Annual Financial Report* or the Single Audit for the years ended June 30, 2003, 2002, and 2001, respectively. Each year, the scope included the federal Special Supplemental Nutrition Program for Women, Infants, and Children, as well as other selected federal and state programs. The most recent report contained five findings. We will review the status of the fiscal year 2003 management letter findings as a part of our fiscal year 2004 Single Audit.

**October 30, 2003, Legislative Audit Special Review, Minnesota Men of Color (Report 03-57)** reviewed the Minnesota Men of Color's financial management of state grants received from the Department of Health for the period from 1999 to 2003. It also reviewed the Department of Health's administration of these grant contracts. The report contained five 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.

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June 10, 2004

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 period July 1, 2000 to June 30, 2003.

***Recommendation:***

The department should obtain evidence of competitive bidding from Rural Hospital Capital Improvement grantees in accordance with Minn. Stat. Section 144.148, Subd. 3, or should seek to change the statutory requirement.

***Response:***

The department concurs with the recommendation that it obtain evidence of competitive bidding from applicants to the Rural Hospital Capital Improvement Grant Program. The department will require evidence of competitive bidding beginning with the program's next annual application cycle, expected in late 2004 or early 2005. In addition, the department will consider seeking to change the statutory requirement.

***Recommendation:***

The Department of Health should comply with federal and state requirements for charging payroll to specific programs by:

- establishing multiple funding sources for individual employees in SEMA4, as appropriate, to reduce the need for mass payroll expense transfers,
- completing the periodic certifications for employees charged to a single federal program,
- performing and documenting time studies when required,
- documenting the reason for transfers of payroll charges between funding sources and how the transfer is consistent with state or federal requirements, and
- documenting payroll transfers on an employee-by-employee basis.

***Response:***

The department concurs with the majority of the payroll recommendations, but believes that we still need some flexibility in the system to maximize federal funds. The department will continue to establish federally funded positions in SEMA4 as they are projected in the federal application. The department will also attempt to budget better those positions that may have more than one funding source available for the same period of time. For example, positions that may be funded from either a federal or a state source will be put into SEMA4 according to a budget plan. However, costs will have to be adjusted to actual time studies and to maximize federal funds.

The department will also remind those employees working 100 percent on a federal program to put the certification on their bi-weekly time sheet. Division directors will also be reminded to enforce the department's time study policy requiring periodic time studies when split funded. Furthermore, when reconciling costs to time studies, Financial Management will require justification to move costs from or to a federal funding source.

When processing the necessary cost adjustments, the department will use the employee-by-employee basis, no longer using mass payroll transfer unless administratively prohibited. The department will be adopting a new electronic time reporting system that will help rack time and cost.

Mr. Nobles  
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June 10, 2004

***Recommendation:***

The Department of Health should properly separate duties over the payroll and personnel functions and ensure that computer system clearances follow this same separation of duties.

***Response:***

The department does concur with this recommendation. The department will further strengthen its controls and checks and balances in regard to payroll processing. The department has already reviewed the security profiles of the seven staff members with access to the SEMA4 system and has removed the authority for three of them to enter payroll transactions. Within staffing limitations, we will also expand the current level of controls through validations and post audits of payroll transactions to ensure continued accuracy. The payroll entry of Human Resource office staff will be second-checked and validated before it is submitted to the SEMA4 system.

***Recommendation:***

The Department of Health should reduce the risk of theft or loss by locking up its incoming receipts.

***Response:***

The department concurs with the recommendation. The department has adopted the following procedure:

The person receiving the mail now places checks in a locked area. Access to this area is restricted to the person receiving the mail and the person doing the deposits.

***Recommendation:***

The department should establish computer system security to allow update access to either receipt information or license information, but not both.

Mr. Nobles  
Page 4  
June 10, 2004

*Response:*

The department concurs with this recommendation. The technology staff has limited the access to this area of the system to as few users as possible. The next step is to create a new role within the database limited to staff that perform the deposits and another role will be created and limited to staff that print a license.

***Recommendation:***

The department should reconcile the receipts recorded on the licensing system to the actual cash receipts.

*Response:*

The department concurs with the recommendation. Technology staff within the Facility and Provider Compliance Division will develop a report that will be run daily to reconcile the receipts recorded in the Oracle database with the cash deposits and the Minnesota Accounting and Procurement System (MAPS) records. The reconciliation among the cash deposits, MAPS, and Oracle will be done by the clerical supervisor.

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

Sincerely,

*/s/ Dianne Mandernach*

Dianne Mandernach  
Commissioner  
P.O. Box 64882  
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