



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Financial Audit Division Report

Department of Health
Federal Program Compliance
Year Ended June 30, 2007



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.

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

Financial Audit Division Report

Department of Health Federal Program Compliance Year Ended June 30, 2007

March 20, 2008

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FINANCIAL AUDIT DIVISION

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**Department of Health
Federal Program Compliance**

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Audit Participation

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

Cecile Ferkul, CPA, CISA	Deputy Legislative Auditor
Michael Hassing, CPA, CISA	Audit Manager
Amy Jorgenson	Auditor-in-Charge
Tracy Gebhard	Senior Auditor
Jennifer Cooper	Senior Auditor
Lat Anantaphong	Staff Auditor

Exit Conference

We discussed the results of the audit with the representatives of the Department of Health at an exit conference on March 5, 2008:

Craig Acomb	Chief Financial Officer
Dave Hovet	Director, Financial & Facilities Management
Terry Smith	Federal Grants Unit Supervisor
Viginia Davis	Accounting Operations Supervisor
Janet Olstad	Assistant Division Director - CFH
Linda Sutherland	Assistant Division Director - IDEPC
Linda Gallatin	Program Administrator - IDEPC
Jane Braun	Assistant Division Director - OEP

Department of Health Federal Program Compliance

Report Summary

Conclusion:

The Department of Health generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the major federal programs we audited for fiscal year 2007. However, the department had the following weaknesses:

Audit Findings:

- The department did not adequately oversee compliance with federal and state requirements for documenting time charged to federal programs. ([Finding 1, page 4](#))
- The department did not monitor subrecipient activity, as required by federal regulations. ([Finding 2, page 6](#))

Audit Scope:

Programs material to the State of Minnesota's federal program compliance for fiscal year 2007:

- Special Nutrition Program: Women, Infants and Children (WIC) (CFDA 10.557)
 - Centers for Disease Control and Prevention (CDC) - Investigations and Technical Assistance (CFDA 93.283)
 - Childhood Immunization Grants (CFDA 93.268)
-

Background:

- The WIC Program provides supplemental food to low-income women and children. WIC expenditures totaled approximately \$80 million for the year.
- The CDC Program provides project grants for local disease prevention and control. Grants to the department include those provided under the Public Health Preparedness and Response to Bioterrorism Program. Federal expenditures for this program totaled almost \$30 million.
- The childhood immunization grants provide both direct assistance (immunizations) and financial assistance to reduce and ultimately eliminate vaccine preventable diseases. Expenditures for this program totaled approximately \$25.4 million, which included \$20.9 million of immunization vaccines.



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Representative Rick Hansen, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Sanne Magnan, Commissioner
Minnesota Department of Health

We have audited certain federal financial assistance programs administered by the Minnesota Department of Health as part of our audit of the state's compliance with federal grant requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. 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 each of its major federal programs. We also audited the department's cash management practices and other general compliance requirements related to federal assistance. The Department of Finance is responsible for preparing the state's *Financial and Compliance Report of Federally Assisted Programs* (Single Audit report) each year, which includes these programs.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the requirements of OMB *Circular A-133 – Audits of States, Local Governments, and Non-Profit Organizations*.

Department of Health Federal Program Compliance

Table 1
Major Federal Programs
Administered by the Department of Health
Fiscal Year 2007 (in thousands)

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Expenditures</u>
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	\$80,002
93.283	Centers for Disease Control and Prevention (CDC) - Investigations and Technical Assistance ²	\$29,931
93.268	Childhood Immunization Grants ³	\$25,434

¹The Catalog of Federal Domestic Assistance (CFDA) is a unique number assigned by the federal government to identify its programs.

²Includes the Public Health Preparedness and Response to Bioterrorism Program.

³Childhood immunization federal expenditures include \$20.9 million of vaccinations and \$4.5 million of financial assistance.

Source: Selected accounting transactions within the Minnesota Accounting and Procurement System (MAPS) for fiscal year 2007 and Minnesota Department of Health summary of vaccinations received from the Centers for Disease Control.

Conclusions

We issued an unqualified audit opinion,¹ dated December 7, 2007, on the State of Minnesota's basic financial statements for the year ended June 30, 2007. In accordance with *Government Auditing Standards*, we also issued our report, dated February 11, 2008, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. Our audit work at the Department of Health discovered errors in the department's process for the preparation of the Schedule of Expenditures of Federal Awards. Because the Department of Finance is primarily responsible for the state's financial reporting process, we included these concerns in our report to the Department of Finance issued in February 2008 ([Legislative Audit Report #08-02](#)).

The Department of Health generally complied with and had controls to ensure compliance with provisions of laws, regulations, contracts, and grants applicable to the major federal programs we audited for fiscal year 2007. However, the department had the following weaknesses:

¹ An unqualified audit opinion means that we concluded that the state fairly presented its financial data in its basic financial statements.

Department of Health Federal Program Compliance

Findings and Recommendations

1. PRIOR FINDING PARTIALLY RESOLVED: The department did not adequately oversee compliance with federal and state requirements for documenting time charged to federal programs.

The department did not provide sufficient oversight or adequately document the basis for payroll costs charged to the Childhood Immunization (CFDA 93.268) and Centers for Disease Control technical assistance (CFDA 93.283) programs. While the department did make improvements since our last audit in its process for reviewing key payroll documents, it did not always comply with federal and state requirements and department policy for supporting time charged to federal programs.

First, the department continued to have problems supporting its payroll charges to specific federal programs. Payroll charges to federal programs must be supported by evidence that employees, in fact, worked on those programs. Federal regulations² require employees who work on multiple programs to support the allocation of their salaries among funding sources with 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. Additionally, when employees are assigned to work on only one federal program, charges for their salaries must be supported by periodic certifications that the employee worked solely on that program. Testing a sample of the department's documentation of time charged to the childhood immunization and CDC federal programs showed numerous problems. Eight of eighteen sample items did not have the required time studies or certifications completed. In addition, there were funding discrepancies on 33 percent of the sampled items. The department's documentation also had the following weaknesses:

- Many employees completed a single program certification when, in fact, they should have completed time studies because they worked on multiple federal grants. OMB Circular A-87 requires employees who work on more than one federal award to have their time supported by personnel activity reports and requires adjustment of payroll charges to the individual federal award, if necessary. In order to correctly allocate costs to each federal funding source, these employees should document their time spent on each federal award.
- Nine employees either had actual time charged to federal funding sources that did not match information provided on the time studies, or we were unable to determine the correct percentages due to lack of documentation. In some cases, the percentages differed by more than 20 percent.

Based on our initial results, we expanded our testing to include all employees of the Immunization Tuberculosis and International Health Section of the department, many of whom

² U.S. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

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had salaries funded by both the childhood immunization and CDC grants. The section did not comply with federal requirements for payroll allocation as follows:

- Sixty-one percent of the 70 employees within the section did not complete any time studies or certifications during fiscal year 2007. This section was unaware of the need to complete certifications for student workers or employees funded by a single source.
- Thirty-seven percent of the employees of this section had not completed the required time studies or certifications for part of the year. Many completed this documentation for the time period of July through December 2006, but did not meet the requirement for the time period of January through June 2007. Some employees completed time studies for the latter time frame, but did not submit them to the payroll area for adjustment.

Second, the department continued to make significant expense transfers to its payroll transactions in order to accurately report its federal funding allocations. State policy³ states that mass expense transfers are not intended as a means to correct a recurring problem. When employees submit time studies, the department adjusts the default funding allocations to more accurately account for time charged to federal programs. This process involves manual calculations that create additional workload for the department and increase the risk of error. The department should set the personnel/payroll system's default allocations to more closely match employees' assignments. The department did record fewer expense transfers in fiscal year 2007 than in past years.

Recommendation

- *The department should provide oversight of its payroll process to ensure compliance with federal and state requirements for documenting time charged to specific programs by:*
 - *Educating all supervisors, federal grant program managers, and employees about the requirements for documenting time charged to federal programs;*
 - *Stressing the need for time studies or certifications for employees whose salaries are federally funded, and defining the differences, and when each type is appropriate according to federal requirements;*
 - *Monitoring that all employees, as required, complete time studies and certifications timely and provide sufficient federal payroll documentation to the central accounting unit; and*
 - *Exploring ways to identify and record significant payroll funding changes as they occur each pay period, rather than continuing to make numerous retroactive adjustments.*

³ State personnel/payroll policy PAY0029.

Department of Health Federal Program Compliance

2. The department did not monitor subrecipient activity, as required by federal regulations.

The department did not adequately review federal grant expenditures of subrecipients and did not review subrecipient audit reports for the WIC (CFDA 10.557) and Centers for Disease Control technical assistance (CFDA 93.283) programs.

First, the department does not have a standard process for reviewing and monitoring subrecipient expenditures for the CDC program. Federal regulations require the department to monitor federal funds passed on to a subrecipient to provide reasonable assurance that the subaward is administered in compliance with laws, regulations, and provisions of contracts or grant agreements. To provide assurance that the expenditures were necessary in achieving the goals of the grant agreement, we contacted some subrecipients directly and validated certain expenditures for which the department did not have adequate supporting documentation.

Second, the department does not have effective controls in place to review subrecipient audit reports for the WIC and CDC programs. OMB Circular A-133 requires that subrecipients expending over \$500,000 annually submit an independent audit report within nine months of their year end to their pass through entity. The department did not obtain or review audit reports for their five subrecipients who met the threshold. Department management indicated the task was not a priority, and there are no staff officially assigned to perform this function.

Recommendation

- *The department should comply with federal requirements by:*
 - *Monitoring subrecipient expenditures for compliance with laws, regulations, or provisions of contracts or grant agreements; and*
 - *Obtaining and reviewing subrecipient audit reports timely and ensuring corrective action on all audit findings.*

This report is intended for the information and use 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 20, 2008.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

**Department of Health
Federal Program Compliance**

**Status of Prior Audit Issues
As of January 25, 2008,**

March 22, 2007, Legislative Audit Management Letter ([Report 07-05](#)) examined the Department of Health's activities and programs material to the Single Audit for the year ended June 30, 2006. The scope included three federal programs: Special Supplemental Nutrition Program for Women, Infants and Children (WIC), Centers for Disease Control and Prevention – Investigations and Technical Assistance, and Childhood Immunization Grants. The report contained one finding. The department partially resolved the issue. We repeated it as Finding 1 in the current report.



Protecting, maintaining and improving the health of all Minnesotans

March 12, 2008

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 completed by your office for state fiscal year 2007.

Recommendation:

The department should improve its oversight of payroll processes to ensure compliance with federal and state requirements for documenting time charged to specific programs.

Response:

The department concurs with this finding and is in the process of designing and implementing new activities that will achieve this goal. Recently the department adopted updated policies and procedures that clarify responsibilities for ensuring time studies and certifications are completed on a timely basis. In addition, the department is planning to provide additional education and training on compliance requirements at new employee orientations, departmental meetings and with specific programs utilizing federal funds.

Staff from the Financial Management unit will meet with the Department of Finance Central Payroll staff to explore options for reducing the number of retroactive payroll adjustments that are needed. The department will also examine the applicability of systems currently being used at other state agencies to provide payroll cost accounting as an alternative to the current time study and certification process.

Mr. Nobles
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Recommendation:

The department should comply with federal requirements by:

- Monitoring subrecipient expenditures for compliance with laws, regulations or provisions of contracts or grant agreements and
- Obtaining and reviewing subrecipient audit reports timely and ensuring corrective action on all audit findings.

Response:

The department agrees with these recommendations and is in the process of revising the department's grant oversight procedures to be consistent with the Office of the Legislative Auditor's recommendations outlined in the January 2007 report entitled "State Grants to Non-Profits Organizations". The department plans to require grantees to submit supporting documentation with their requests for reimbursement of expenditures at least once during each two year agreement.

The department will also assign staff to regularly review reports from the Department of Finance to determine which grantees meet the audit threshold, ensure that the department has received a current audit report from those organizations, and provide follow-up on any audit findings identified in those reports for grantees or their subrecipients.

I have assigned Craig Acomb, agency Chief Financial Officer, to implement the actions necessary to comply with these recommendations.

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

Sincerely,



Jeanne M. Danaher
Deputy Commissioner
P.O. Box 64975
St. Paul, MN 55164-0975