



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

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**FINANCIAL AUDIT DIVISION REPORT**

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**DEPARTMENT OF HEALTH  
INTERNAL CONTROL AND COMPLIANCE AUDIT**

**JULY 1, 2004, THROUGH JUNE 30, 2007**

**August 28, 2008**

**Report 08-19**

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## OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

August 25, 2008

Representative Rick Hansen, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Sanne Magnan, Commissioner  
Department of Health

This report presents the results of our internal control and compliance audit of the Department of Health for the period July 1, 2004, through June 30, 2007.

Our fieldwork ended on April 8, 2008, and we discussed the results of the audit with department staff on August 7, 2008. The audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Amy Jorgenson (Auditor-in-Charge), assisted by auditors Lat Anantaphong, Sara Becker, and Paul Thompson.

We received the full cooperation of the department staff while performing this audit.

*/s/ James R. Nobles*

*/s/ Cecile M. Ferkul*

James R. Nobles  
Legislative Auditor

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# Report Summary

## Conclusions

The department's internal controls were not adequate to safeguard receipts and sensitive assets, monitor grantee financial activity, ensure compliance with statewide cell phone policies, or for monitoring of certain payroll transactions. The department's internal controls were adequate to ensure that it accurately paid vendors, properly oversaw and authorized financial transactions, and produced reliable financial data. For the items tested, the department generally complied with finance-related legal requirements over its financial activities, except for certain licensing receipts and payroll transactions. The report contains 19 findings related to internal control and legal compliance deficiencies. We highlight the key findings below.

## Key Findings

- The department did not adequately safeguard receipts. ([Finding 1, page 7](#))
- The department did not establish adequate computer system security controls for its licensing databases for several programs. ([Finding 2, page 8](#))
- The department did not properly reconcile receipt data. ([Finding 3, page 9](#))
- The department maintained excessive inventory of incentive items and did not adequately safeguard these assets. ([Finding 10, page 14](#))
- The department did not have effective controls over monitoring certain payroll and personnel processes. ([Finding 12, page 16](#))
- The department did not effectively monitor its nongovernmental grantees that received general fund grant awards. ([Finding 16, page 19](#))
- The department did not have effective controls to ensure that it safeguarded cell phones and other wireless devices, and that it complied with the state's policies and Internal Revenue Service regulations. ([Finding 17, page 20](#))

## Audit Objectives and Scope

<u>Objectives</u>	<u>Period Audited</u>
• Internal Controls and Compliance	July 1, 2004, through June 30, 2007
<u>Programs Audited</u>	
• Payroll and other administrative expenditures, including travel, cell phones, and purchasing cards	
• Selected regulatory and occupational licensing receipts	

## Background

The mission of the Department of Health is to protect, maintain, and improve the health of all Minnesotans. The department finances its operations primarily through General Fund appropriations and federal grants. In addition, the department collects approximately \$35 million of receipts from regulatory and occupational licensure each year. The department provided grants and aid of approximately \$274 million each year to individuals, local governments, and nonprofit organizations.



# Department of Health

## Agency Overview

The Department of Health's mission is to protect, maintain, and improve the health of all Minnesotans. The department operates pursuant to *Minnesota Statutes* 2007, chapter 144. Its responsibilities include:

- identifying public health issues that need special attention;
- preparing for public health emergencies;
- ensuring quality care in nursing homes and other health care facilities;
- improving the quality of health care and controlling rising costs;
- eliminating health disparities; and
- maintaining the basic responsibilities of public health including safe food and water, immunizations, newborn screening, and disease prevention and control.

The department received General Fund appropriations of \$61,652,000, \$64,883,000, and \$74,173,000 for fiscal years 2005, 2006, and 2007, respectively. In addition, it has a significant amount of revenue from federal grants, service and licensing fees, and other sources that is used for its operations. Table 1 summarizes the department's revenues and expenditures for the period July 1, 2005, through June 30, 2007.

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**Table 1**  
**Revenues and Expenditures**  
**Fiscal Years 2005 through 2007**

<b>Revenues</b>	<b>Fiscal Year<sup>1</sup></b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
Federal Grants	\$185,323,590	\$193,614,336	\$195,723,184
Service User/Business Regulatory/ Occupational Licensure Fees	32,138,800	32,436,190	35,116,369
Cost Recoveries/Reimbursements	40,917,125	13,724,052	32,847,313
Indirect Costs	16,394,952	17,102,502	18,426,087
Other Revenues	58,367,148	61,272,471	55,962,805
Total	<u>\$333,141,615</u>	<u>\$318,149,551</u>	<u>\$338,075,758</u>
 <b>Expenditures</b>			
Payroll	\$ 91,322,912	\$ 91,655,686	\$ 93,781,133
Professional/Technical Services	20,198,177	18,292,341	18,714,137
Space Rental/Utilities	7,308,227	10,401,198	12,407,370
Travel	2,878,100	3,023,065	2,805,920
Other Administrative Expenditures	18,351,158	17,151,559	18,088,617
Indirect Costs	17,356,694	18,191,056	19,458,240
Aid to Individuals	80,705,114	88,974,986	92,292,025
Grant Payments	<u>170,012,775</u>	<u>113,472,335</u>	<u>182,207,031</u>
Total	<u>\$408,133,157</u>	<u>\$361,162,226</u>	<u>\$439,754,473</u>

<sup>1</sup>The state's fiscal year is July 1 through June 30.

Note: Cost recoveries and indirect cost revenues represent a combination of recoveries from the federal government and other state-funded programs.

Source: Minnesota Accounting and Procurement System as of December 31, 2007.

## **Objectives, Scope, and Methodology**

Our selected scope audit of the Department of Health for the period July 1, 2004, through June 30, 2007, included the department's personnel and payroll activity, grant expenditures to nongovernmental organizations, administrative expenditures (including travel, purchasing cards, and cell phones), and selected regulatory and occupational licensing receipts within five areas: newborn screening; well management; public water connection services; food, beverage and lodging; and home care and health care facilities compliance. Our audit focused on the following objectives:

- Were the department's internal controls adequate to ensure that it accurately paid employees, vendors, and grantees; adequately safeguarded receipts and assets; properly oversaw and authorized financial transactions; produced reliable financial data; and complied with finance-related legal requirements?
- For the items tested, did the department comply with significant finance-related legal requirements over its financial activities, including state and federal laws, regulations, contracts, and applicable policies and procedures?
- Did the department resolve prior audit recommendations?

To meet the audit objectives, we gained an understanding of the Department of Health's financial policies and procedures. We considered the risk of errors in the accounting records and noncompliance with relevant legal provisions. We analyzed accounting data to identify unusual trends or significant changes in financial operations. We examined a sample of evidence supporting the agency's internal controls and compliance with laws, regulations, policies, and contracts.

We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We used the guidance contained in Internal Control-Integrated Framework,<sup>1</sup> published by the Committee of Sponsoring Organizations of the Treadway Commission, as our criteria to evaluate agency controls. We also used state policies and procedures established by the departments of Finance and Administration, as well as the department's internal policies and procedures as evaluation criteria.

## Conclusions

The department did not have adequate internal controls to safeguard receipts and sensitive assets, monitor grantee financial activity, ensure compliance with statewide cell phone policies, or for monitoring certain payroll transactions. The department did have adequate internal controls to ensure that it accurately paid vendors, properly oversaw and authorized financial transactions, and produced accurate financial data.

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<sup>1</sup> The Treadway Commission and its Committee of Sponsoring Organizations were established in 1985 by the major national associations of accountants. One of their primary tasks was to identify the components of internal control that organizations should have in place to prevent inappropriate financial activity.

For the items tested, the department generally complied with finance-related legal requirements over its financial activities, except for certain licensing receipts and payroll transactions.

This report contains 19 findings related to internal control and legal compliance.

# Findings and Recommendations

## Receipts

**The Department of Health did not adequately safeguard receipts.**

**Finding 1**

The department did not adequately safeguard about \$99.7 million it received from fees for business regulatory, licensing, and service user operations. During fiscal years 2005 through 2007, the department collected over 200 types of business regulatory, licensing, and service user fees. The department collected fees directly from individuals for professional licenses, from businesses, such as hospitals, nursing homes, restaurants, and hotels for business licenses, and from municipalities for water service connection fees. The department had a decentralized approach to managing and collecting fee receipts. The department did not have a centralized cashier operation and was not using the state's electronic licensing or receipt systems. Most businesses and professionals sent checks for their fees directly to the program office in one of three locations: Freeman Building, State Lab Building, and the Golden Rule Building.

The department had internal control weaknesses in its processes for handling receipts in the following program areas: well management; public water supply connection; newborn screening; food, beverage, and lodging; and home care and health care facilities compliance. In addition, findings 2 through 9 discuss other receipt process weaknesses unique to specific programs.

- The department did not create an initial record of its receipts until the program area obtained and opened the mail. This initial record is an important control to validate that the department deposited all receipts into the bank. Receipts sent to any of the three department locations were first received in the buildings' mailrooms. Mailroom personnel sorted the mail by intended location, without distinguishing between regular mail and receipts and without making a record of the receipts. Mailroom personnel then delivered the mail to unsecured "neighborhood centers" in various locations throughout the buildings. (Neighborhood centers are common areas in the buildings that all employees have access to. These areas have office mailboxes, copiers, and supplies; the areas also include employee break areas.) The mail, including receipts, was in the "neighborhood centers" until a designated employee, or employees, did a further mail sort and delivered the receipts to the intended locations. Only when the receipts arrived at these intended locations did department employees make a record of the receipts.

- The department had approximately 35 cashiers involved in processing receipts. Receipts originally received at the Golden Rule Building went through at least seven sets of hands before they were deposited with the Treasury Division. In addition, each program area had its own database system for recording payments and issuing licenses. Department management was unable to identify all of its databases associated with its licensing and certification processes. Consequently, it had not designed internal controls for receipt processing that would reduce the risk of loss, theft, and abuse of funds and licensing information. It may be easier to implement effective internal controls in a less decentralized environment.
- The receipts were not safeguarded at the neighborhood centers. At various times in the process, receipts were transported in locked bank bags from one location to another. However, the department had one employee transport all the checks and supporting documentation for the total daily deposits to the Department of Finance in an unsecured box.

The department's lack of adequate controls over physical security increased the risk of theft or lost receipts. The department had not designed effective internal controls to maintain accountability for the funds. In addition, the department put employees and funds at risk while transporting receipts.

#### *Recommendations*

- *From the time of initial receipt through the bank deposit, the department should:*
  - *physically secure and safeguard receipts to protect them against loss or theft, and*
  - *establish effective internal controls to ensure accountability for custody of the receipts.*

## **Finding 2**

**The department did not establish adequate computer system security controls for its licensing databases for several programs.**

The computer systems used to monitor and manage licenses and fees for the food beverage, and lodging; well management; and public water connection fees did not have well defined security controls. Within each of these systems, the levels of permitted access are either "view" or "update." Employees with update access could update any records in the database; there was no distinction between updating deposit records and licensing records. This level of system security increased the risk that employees could generate licenses without collecting the proper fee, or that the fees could be diverted for other purposes. Good internal controls require that employees who record and deposit receipts should not also have the ability to generate licenses.

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*Recommendation*

- *The department should establish computer system security for all of its employees working on licensing databases to allow update access to receipt or license information, but not both.*

**The department did not properly reconcile receipt data.****Finding 3**

In several program areas, department staff did not perform some reconciliations that are important to ensure adequate internal controls in their receipt processes. Because the programs used a subsidiary computer system to process detailed receipts and issue licenses, it is important for the department to ensure that all receipts recorded on the subsystem reconcile to the receipts recorded on the state's accounting system.<sup>2</sup> In addition, the department needs to reconcile recorded receipts to the number of licenses and certificates issued. Unexplained differences in these reconciliations may be an indication of error or fraud. To ensure the integrity of the reconciliations, they need to be performed by someone who is independent of the deposit, receipt recording, or license issuing process. Someone who is not independent could hide unexplained differences to conceal their errors or fraud.

The following program areas had weaknesses in their reconciliation processes:

- The newborn screening program, food, beverage, and lodging program, and the home care and health care facilities compliance did not reconcile receipts recorded on its subsystems to those recorded on the state's accounting system.
- The water connection services program did reconcile subsystem receipt data to the state's accounting system each month, but the reconciliation was performed by the cashier, who was not independent.
- The well management program also did not reconcile program data with the number of licenses issued.
- The public water supply program also was not currently reconciling receipts to individual inspector licenses issued.

By not performing monthly reconciliations of program receipt data, the department has no assurance that it deposited and recorded the appropriate amount of receipts, which it collected for all licenses issued.

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<sup>2</sup> The Department of Finance has the responsibility to reconcile the receipts recorded on the state's accounting system to the actual bank deposits.

*Recommendation*

- *The department should perform reconciliations between subsystem receipt data and the state’s accounting system and between subsystem receipt data and the total number of licenses issued.*

## Finding 4

### Several programs did not adequately safeguard or inventory its stock of blank licenses and certificates.

Four receipt programs did not adequately safeguard or maintain an inventory of blank or unused license certificates, identification stickers, or screening cards. Because these licenses, stickers, and screening cards are purchased through the department, and often require evidence of the purchaser meeting certain licensing or regulatory requirements, they should be safeguarded and inventoried like any other valuable asset.

Following are examples of the department’s weaknesses in safeguarding these assets:

- The food, beverage, and lodging program stored sanitarian license certificates in the “neighborhood center”<sup>3</sup> in an open mailbox and stored license certificates for food, beverage, and lodging establishments in an unlocked supply room.
- Home care and health care facilities compliance stored license certificates in an unlocked cabinet.
- The well management program stored license certificates and well rig stickers on top of a cabinet at a desk.
- The newborn screening program stored a box of blood test screening cards on top of a cabinet at the cashier’s desk. Possession of the screening card provided access to the program’s medical screening services.

None of these programs kept an inventory record of the stock licenses, cards, or certificates on hand. Good internal controls require that assets be safeguarded and properly secured with limited access to reduce the risk of unauthorized use or the loss or theft of potential revenue.

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<sup>3</sup> See [Finding 1](#) for an explanation of a “neighborhood center.”

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*Recommendation*

- *The department should physically secure and maintain an inventory control of its unused license certificates and other receipt assets to diminish the risk of theft, loss, or abuse.*

**The newborn screening program did not have adequate separation of duties over its receipt and screening card issuance processes.**

**Finding 5**

One employee in the newborn screening program was responsible for collecting, safeguarding, and recording of receipts into the program database, preparing deposits, and taking the money to the department's financial management division for deposit. In addition, this employee ordered newborn screening cards to be shipped to hospitals and clinics and also kept a stock of cards at her desk for partial orders and emergency use. She also managed an accounts receivable system for screening cards sent to hospitals before receiving payment. There was no supervisory review over ordering of screening cards, nor was there an inventory system in place to track the screening cards.

Segregation of duties is a basic, key internal control designed so that no single individual has control over all phases of a transaction or operation. It is used to ensure that errors or irregularities are prevented or detected on a timely basis by employees in the normal course of business. In those instances where duties cannot be fully segregated, mitigating controls must be established. Mitigating controls are additional procedures designed to reduce the risk of errors or irregularities. Mitigating controls might include supervisory authorization of certain transactions or a review of reconciliations. The newborn screening program's lack of separation of duties and insufficient mitigating controls increased the risk of misappropriation of the screening cards and the risk of loss or theft of receipts.

*Recommendation*

- *The department should adequately separate duties over newborn screening receipts and the screening card distribution process to reduce the risk of theft or loss.*

**The well management program did not have an adequate process for collecting past due receipts.**

**Finding 6**

The well management program did not have a collections process for past due receipts before October 2007. The Pollution Control Agency and the Department of Agriculture mandated that wells are placed near potential pollution sources to measure the level of contaminates in the ground. The Department of Health was

responsible for collecting a monitoring well permit fee on these wells.<sup>4</sup> This permit was automatically renewed annually after an initial 18-month interval as long as the well was in use. Any unpaid amounts from prior periods continued to accrue. The department identified past due accounts and sent a notification of violation to the parties legally responsible for the monitoring of wells. However, the department did not further pursue collection of past due accounts, as required by state policies.<sup>5</sup> In April 2008, the outstanding balance of 214 past due accounts was approximately \$88,000, which included 63 past due accounts from fiscal year 2005, 66 from 2006, and 85 from 2007.

#### *Recommendation*

- *The department should develop a process to monitor and collect past due accounts within the well management program.*

## **Finding 7**

### **The health care facilities compliance program did not collect all receipts in a timely manner.**

The health care facilities compliance program allowed hospitals and nursing homes to obtain an annual license either by paying the fee in full or making payments on a quarterly basis. However, the program did not have an accounts receivable process in place for the required quarterly payments and did not bill or monitor the outstanding amounts. Some institutions paid the initial quarterly payment on time but delayed payment of the remaining license fee up to nine months. Generally, the department collected the past due accounts when the institution applied for the next year's license renewal. Department personnel stated that they would not issue a new license until the institution paid the past due amount in full. However, sample testing of six past due accounts found that two nursing homes received a license for the next year even though they had about \$10,000 and \$2,000 outstanding from their prior year's license fees, respectively.

#### *Recommendations*

- *The department should ensure that all license fees are paid in full.*
- *The department should also have an accounts receivable process for the quarterly payments to ensure they are promptly collected.*

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<sup>4</sup> *Minnesota Statutes* 2007, 103I.208.

<sup>5</sup> Department of Finance Policies 0503-01, 0505-01, 0506-05, 0311-01.

**The food, beverage, and lodging program did not collect the correct fees for certain license and inspection activities.**

The food, beverage, and lodging program did not always collect the correct fee after a fee increase. The program provides annual licenses for eating and lodging establishments. An establishment's license fees were determined at the time of an initial or periodic inspection of the premises by an authorized sanitarian inspector. A license could include multiple fees, with a typical restaurant having three or four different fee types. The various rates were listed in a checklist format on the back of the license application.

Per statute, the food, beverage, and lodging program's fee rates increased in fiscal year 2006 with an effective date of August 1, 2005. The department updated the licensing subsystem's rate table at the time of the fee increase, but it accepted outdated applications and old fee rates for several months after the increase. The subsystem alerted cashiers when a fee was underpaid, but the cashiers could override the alert and accept the lower amount. From August to November 2005, cashiers accepted insufficient fees for 300 to 400 license applications, undercharging licensees by about \$3,000.

*Recommendation*

- *The department should have a process in place to update license applications and notify potential licensees in advance of statutory changes that increase license fee amounts and to resolve instances when licensees inadvertently pay an insufficient amount.*

**Certain program areas did not deposit receipts in a timely manner.****Finding 9**

The home care and health care facilities compliance and the well management programs did not timely deposit receipts. Statutes<sup>6</sup> require departments to deposit receipts greater than \$250 within one day. For the home care and health care compliance program, six of ten tested deposits were two days or more after the receipts were collected. For the well management program, two of ten tested deposits were deposited more than two days after the date received.

*Recommendation*

- *The department should promptly deposit receipts in accordance with statutory requirements.*

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<sup>6</sup> *Minnesota Statutes* 2007, 16A.275.

## Assets

### Finding 10

**The department maintained excessive inventory of incentive items and did not adequately safeguard these assets.**

As of April 2008, the department had a excessive supply of unused or unredeemed incentive items on hand. The department did not adequately safeguard these items.

As allowed by federal regulations, the department purchased a variety of items to distribute to people with infectious diseases as incentives for them to complete treatments or attend required checkups. During fiscal years 2005, 2006, and 2007, the department purchased incentive items totaling approximately \$188,000; these items included gift cards, American Express gift checks, bus tokens, phone cards, and parking passes. The denominations of the gift cards ranged from \$5 to \$50. The department kept a centralized inventory count of the incentives, but then distributed the items to many different health program areas located throughout the department.

We analyzed the incentive activity related to the tuberculosis program. This program stored their gift cards in a safe before distributing them to local public health agencies. On April 8, 2008, the safe contained over 1,600 gift cards. Based on the incentive program manager's analysis, the program expected to distribute between 500 and 600 cards in 2008, with possible declines in future years. The program had enough gift cards on hand to last approximately three years.

The department had the following security risks related to gift cards and incentive items for the tuberculosis program:

- The department did not perform regular overall inventory counts on the assets;
- The department did not change the code to the safe when personnel changes occurred; and
- The department continued to purchase additional incentive items even though it had a sufficient inventory of incentive items on hand.

Additionally, the physical evidence of a card does not confirm that the value of the card is intact. Cards could have been used without authorization, either at the store or through an online purchase, and then returned to the inventory. Department records showed some instances of missing or borrowed cards that were supposed to be replaced later by department staff, as well as stolen bus tokens and \$500 in cash incentives that could not be accounted for. Records also indicated that many cards purchased as far back as 2004 and 2005 had not yet been redeemed.

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If the department chooses to continue with the incentive programs, they should physically account for all incentive items centrally and enhance the overall security over the program to ensure that the incentives are not lost, stolen, or misused. Management has a responsibility to minimize opportunities for employee theft and abuse of these assets. By keeping excessive inventories of sensitive items in multiple locations and not using them in a timely manner, the department is subject to unnecessary risks.

*Recommendation*

- *The department should improve security and safeguards over its incentive program items by:*
  - *maintaining all sensitive items in a secure central location;*
  - *conducting periodic physical inventories and spot checks of incentive items;*
  - *using inventory of incentive items in a timely manner;*
  - *monitoring the use and redemption of the items; and*
  - *establishing a reorder cycle based on the use of the items and current supply on hand to meet the needs of the program.*

**The Department of Health did not adequately safeguard certain fixed assets.**

**Finding 11**

In June 2007, the department purchased 37 ventilators worth nearly \$400,000 to use in the event of an influenza pandemic. The department distributed the ventilators to eight hospitals located throughout the state, where they are being kept until needed. The department personnel did not record these ventilators in its fixed asset system or affix asset tags to the equipment because they were in the process of determining if the state would retain ownership of these assets or donate them to the hospitals. Until this decision was made, the ventilators were State of Minnesota assets, and the department should have included them in its inventory records.

*Recommendation*

- *The department should record the ventilators in its fixed asset database and should identify them as State of Minnesota assets by affixing an asset sticker to the equipment.*

## Payroll

### Finding 12

#### The Department of Health did not have effective controls over monitoring certain payroll and personnel processes.

The department did not always follow state policies and procedures or did not have sufficient controls over certain of its payroll or personnel processes. Internal controls establish a foundation of checks and balances to ensure that payroll transactions are authorized and represent valid obligations of the department. The department charged \$93.7 million to payroll during fiscal year 2007, which represented approximately 21 percent of its expenditures.

- The department did not use a key payroll report (the payroll register) to ensure the accuracy of amounts, rates, and hours for wages and employee reimbursements. State policy<sup>7</sup> outlines the department's responsibility to review the payroll register for at least a statistical sampling of employees to verify that it paid the correct amounts or accurately processed any necessary adjustments. The department had limited its review of this report to the error code field associated with each employee's transaction.
- The department's biweekly review of payroll did not include procedures to detect excessive holiday leave taken. All of the state's bargaining units and compensation plans provide for ten holidays per year plus one floating holiday. Depending on an employee's work schedule, an employee should receive 80 to 100 hours of holiday pay. The department did not identify that two employees had been paid more than 100 hours of holiday pay in a given year; one employee received two hours holiday pay for one day beyond the amount allowed, and another employee was allowed two floating holidays in one year.
- The department did not document that it performed a required review when backup approvers validated timesheets within the state's self service time entry payroll system. State policy<sup>8</sup> requires notification to the primary approver when backup approvers or payroll staff modify or approve timesheets. This helps to ensure that the timesheet modification or approval was appropriate. The department was unable to provide documentation to support any correspondence between the backup and primary approvers of the bi-weekly payroll when changes were made.
- The department did not ensure the accuracy of a retroactive payroll adjustment. During 2006, the department discovered that it had missed a step increase for an employee on December 5, 2001. The department did not validate the amount of the underpayment calculated by the state's

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<sup>7</sup> Department of Finance Policy PAY0028.

<sup>8</sup> Department of Finance Policy PAY0017.

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payroll system. However, because the automated calculation used a wrong starting date, the correcting adjustment still underpaid the employee for 80 hours.

- State policy<sup>9</sup> requires that all overtime be approved by an appointing authority designee. The Department of Health established an internal policy in October 2006 that required all employees to obtain authorization for overtime from a division director. These policies were established to ensure that overtime is necessary, acceptable, and reasonable. Testing of a sample of overtime payments found that employees do not always have their overtime approved in advance.

#### *Recommendations*

- *The department should improve internal controls over its payroll and personnel activities by:*
  - *using the payroll register to verify the accuracy of pay rates, hours worked, and type of leave taken;*
  - *conducting a review of transactions processed by backup approvers, as required by PAY 0017; and*
  - *ensuring that all requests for overtime have been reviewed and authorized, as required by PAY0012.*
- *The department should adjust the inaccurate holiday and floating holiday payments and the underpayment of the retroactive payroll adjustment.*

**The Department of Health did not comply with certain state rules for administering employee payroll.**

**Finding 13**

The department did not obtain prior approval from the Department of Employee Relations<sup>10</sup> to establish the compensation rate for a new employee that exceeded the level established by the employee's bargaining agreement. According to *Minnesota Rules*,<sup>11</sup> the department must have prior approval from the Department of Employee Relations before appointing an employee higher than step three or 12 percent over the salary range minimum. Although Employee Relations had delegated this authority to the department for some hiring decisions, it still needed the Department of Employee Relations' approval for Managerial Plan appointments.

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<sup>9</sup> Department of Finance Policy PAY0012.

<sup>10</sup> As of July 1, 2008, the Department of Employee Relations merged into the Department of Finance.

<sup>11</sup> *Minnesota Rules*, 3900.2100, subd. 2.

There were three instances out of six sample transactions where the department did not obtain prior approval for the offered wages higher than step three or 12 percent over minimum. The department requested approval after the offer was extended and accepted. In one of these cases, the supervisor offered a wage rate that exceeded what had been initially negotiated and approved by the Department of Employee Relations.

*Recommendation*

- *The department should obtain prior approval before setting an initial pay rate higher than the limits established by state personnel rules.*

## **Finding 14**

### **The Department of Health did not maintain interagency personnel agreements.**

The department was unable to provide some written agreements to justify the wages paid to other state agency employees established under Inter-Agency Request for State Employee Services. The department had 24 interagency agreements during fiscal years 2005 through 2007. State policy<sup>12</sup> requires that departments keep on file for at least six years a fully executed copy of every contract, amendments to the contract, and performance evaluations relating to the contract. The department was unable to provide valid agreements for wages paid to six of eight sampled employees. Three agreements had expired or were for the wrong time period, and three other agreements could not be located.

*Recommendation*

- *The Department of Health should maintain documentation to support all of its interagency personnel agreements to ensure that all terms and conditions have been met.*

## **Finding 15**

### **Prior Finding Not Implemented: The Department of Health did not establish adequate security over system access to the state's personnel and payroll system.**

The department allowed five employees to have incompatible access to the state's personnel and payroll system without implementing effective mitigating controls. Although the department sought approval to allow the incompatible access, they did not follow the direction of the Department of Employee Relations to perform

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<sup>12</sup> Minnesota Departments of Finance and Administration Operating Policy and Procedure 0705-05 and the master record retention schedule.

an independent review of the activity performed by the employees with incompatible accesses.

State policy<sup>13</sup> requires departments to eliminate incompatible security profiles except in unusual circumstances. Typically, those circumstances exist in a small department with insufficient staff to adequately segregate incompatible duties. If a department cannot avoid allowing incompatible access, it must develop mitigating controls and obtain approval from the Department of Finance for ensuring oversight of the incompatible access.

#### *Recommendation*

- *The department should reassess its ability to eliminate incompatible access to the state's personnel and payroll system. If the department confirms that it needs to provide employees with incompatible access, it needs to develop effective mitigating controls, such as an independent review of transactions, and have those mitigating controls approved by the Department of Finance, as required by state policy.*

## Grants

**The Department of Health did not effectively monitor its nongovernmental grantees that received general fund grant awards.**

## Finding 16

The department did not have adequate internal controls in place to ensure that all nongovernmental grantees were using general fund grant awards to achieve the financial terms of the grant agreement. Generally, grantees sought reimbursement by submitting an invoice of the expenses incurred for a certain time period. These invoices, however, did not always sufficiently identify the types of expenditures being reimbursed. The department had the following weaknesses in its oversight of nongovernmental grants:

- The department reimbursed some grantees within the STD-HIV Prevention grant even though the invoice submitted did not sufficiently itemize the details of the expenditures. In some cases, there was no itemization of the requested reimbursement amount, and other requests did not provide any supporting documentation for the expenditures. Without a detailed itemization, the department is not able to assess whether the expenditures were allowable under the grant.

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<sup>13</sup> Department of Finance Policy HR0045.

- The department's site visits to grantee agencies typically focused programmatic aspects of the grant, such as whether the grantee met grant financial terms. The department did not usually use its site visits to review support for reimbursement claims or determine the validity of the reimbursed amounts.

*Recommendation*

- *The department should ensure that funds provided to nongovernmental grantees are used in accordance with the grant agreements by:*
  - *verifying that all requests for reimbursement of expenditures contain adequate detail to ensure that items reimbursed are valid grant expenditures; and*
  - *incorporating fiscal components into all site visits, such as checking a grantee's support for its expenditures and employee timesheets and verifying the existence of assets purchased with grant funds.*

## Cell Phones

### Finding 17

**The department did not have effective controls to ensure that it safeguarded cell phones and other wireless devices, and that it complied with the state's policies and Internal Revenue Service regulations.**

The department had several weaknesses related to its management and oversight of state provided cell phones to its employees:

- The department did not ensure that cell phones or other wireless devices were safeguarded and accounted for through a formal inventory process. The department did have a database of cell phone or wireless device users for informational purposes, but they did not perform any reconciliation or inventory of the cell phones to monthly statements or usage agreement forms.
- The department did not comply with the Internal Revenue Service (IRS) ruling on government employees' use of cell phones. The IRS requires governmental agencies to either be reimbursed for personal phone call use or include the cell phone cost as income to the employee if 1) the employer does not require employees to keep records of their personal calls or 2) the employees do not keep their own records. The department did not have any controls to ensure its employees kept records of personal calls and did not include cell phone costs as income for the employees.

- Similarly, the department did not comply with the Department of Administration's policy<sup>14</sup> on cell phone use. According to the state's policy, departments are responsible to establish the process by which employees identify personal calls. These calls must be reported to the employee's supervisor or to the person who is responsible for making the payment. The department did not send cell phone monthly billing statements to employees for review to ensure that employees were identifying or reimbursing the personal calls. From June 2006, when the state policy became effective, through April 2008, the state's accounting system recorded only 11 reimbursements, totaling less than \$165, to the department for personal use of a state cell phone. In addition, employees stated that they did not routinely review their monthly bills for personal calls. By not tracking personal calls, the department may not be able to determine whether the extent of business use justifies the cost of the cell phone.
- The department did not comply with the state's policy requirement for departments to obtain and retain an acknowledgement of receipt form for each employee that it provides with a state cell phone. These acknowledgement of receipt forms give assurance to the agencies that the employees are aware of and knowledgeable about the state cell phone policy use. None of the 33 employees we tested had a signed form on file.

#### *Recommendations*

- *The department should inventory all cell phones and other wireless devices and periodically monitor the issuances and returns of these items to ensure they are properly accounted for.*
- *The department should improve its internal controls over cell phone use by:*
  - *requiring all cell phone and other wireless device users to complete and sign an acknowledgement of receipt form;*
  - *ensuring employees keep records identifying personal calls or report the cell phone costs as income to the employees;*
  - *providing employees with monthly cell phone usage records for review; and*
  - *establishing a process to periodically review the use of department issued cell phones.*

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<sup>14</sup> Department of Administration Statewide Policy: Appropriate Use of Electronic Communication and Technology.

## Travel

### Finding 18

**The Department of Health did not conduct a cost benefit analysis on employee mileage reimbursements.**

The department had a number of employees whose job duties required significant travel to inspect facilities across the state. These employees used their own vehicles to drive to inspection sites and received reimbursement for their mileage as allowed by state bargaining agreements. The department's policy states that in certain cases, the department will pay the allowed IRS mileage rate, even though the employee bargaining agreements allow for and sometimes require paying a lower mileage rate if a state car is offered and declined. The department was unaware that four employees had mileage reimbursements greater than \$30,000 during the three-year audit period, including one employee with over \$45,000.

In order to provide good financial oversight over the management of its costs related to employee travel reimbursements, including mileage, the department should periodically compare the costs of reimbursing mileage rather than using department owned vehicles or leasing state vehicles. The department should also pay the lower mileage rate when allowed or required by employee bargaining agreements. Without a complete analysis, the department may be missing the potential for a more cost effective delivery of services.

#### *Recommendations*

- *The department should conduct a cost analysis to determine whether providing a state vehicle would be more cost effective than paying mileage reimbursements for employees with significant job-related travel requirements.*
- *The department should pay the lower mileage rate when allowed or required by employee bargaining agreements.*

## Purchase Cards

### Finding 19

**The Department of Health did not have signed cardholder agreement forms for all employees with state credit cards.**

The department did not have cardholder agreement forms for 21 of the 74 tested employees to whom the department had issued "travel only" state credit cards. State policy requires that all employees given state credit cards sign a cardholder agreement form to acknowledge they have read the policies and procedures about the appropriate use of state issued purchasing cards.

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The department incurred about \$2.5 million of expenditures through its participation in the state's purchasing card program. Through this program, the department can issue a state credit card to an employee and authorize that employee to incur specific types of expenditures, such as travel-related costs. In April 2008, 134 department employees had state credit cards. All but seven of these cards were "travel only" cards with more restrictive transaction limits and generally used for employee business travel expenses.

*Recommendation*

- *The department should obtain and retain cardholder agreements from all cardholders in accordance with the state's purchasing card policy.*
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*Protecting, maintaining and improving the health of all Minnesotans*

August 18, 2008

Mr. James R. Noble  
Legislative Auditor  
Office of the Legislative Auditor  
658 Cedar Street  
Room 140 Centennial Office Building  
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations of the Office of the Legislative Auditor's compliance and internal control audit of the Department of Health for the three year period ending June 30, 2007.

*Recommendation:*

- *From the time of initial receipt through the bank deposit, the department should:*
  - physically secure and safeguard receipts to protect them against loss or theft, and*
  - establish effective internal controls to ensure accountability for custody of the receipts*

*Response:* The department concurs with this recommendation and already established controls to physically secure mail in the neighborhood centers until the appropriate cashier accesses for proper processing. The Department has also established a locked security box in Financial Management for cashiers to secure receipts until they can be processed and transported to the bank of deposit. The person taking the deposits to the bank is escorted by Department facilities staff on a daily basis.

*Recommendation:*

- *The department should establish computer system security for all of its employees working on licensing databases to allow update access to receipt or license information, but not both.*

*Response:* The department concurs with this recommendation and as old legacy systems are replaced and moved to new platforms, the security systems are being updated to include this feature.

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*Recommendation:*

- *The department should perform reconciliations between subsystem receipt data and the state's accounting system and between subsystem receipt data and the total number of licenses issued.*

Response: The department concurs with this recommendation and will revise internal policy and procedures to include this step and monitor the compliance as resources allow.

*Recommendation:*

- *The department should physically secure and maintain an inventory control of its unused license certificates and other receipt assets to diminish the risk of theft, loss, or abuse.*

Response: The department maintains a wide variety of license certificates and other forms that vary greatly in value or potential for abuse. The Department concurs with the recommendation that any high value and other sensitive items should be secured properly.

*Recommendation:*

- *The department should adequately separate duties over newborn screening receipts and the screening card distribution process to reduce the risk of theft or loss.*

Response: The department concurs with this recommendation and will assign additional staff to assure the proper checks and balances are in place as well as track and safely store the inventory of valuable items.

*Recommendation:*

- *The department should develop a process to monitor and collect past due accounts within the well management program.*

Response: The department partially concurs with this recommendation and has increased the effort in tracking down the owners of these wells. The department has to balance the resources available to the program from the payers of the fees to the benefit derived to the payers of the fees. Currently, unless the department begins to collect sensitive information from all well owners, the only system available for collection is the court system which is not cost beneficial. The department will further review this option.

*Recommendation:*

- *The department should ensure that all license fees are paid in full.*
- *The department should also have an accounts receivable process for the quarterly payments to ensure they are collected timely.*

Response: The department concurs with this finding. The Health Care Facilities program does have a data base that denotes that a facility is on the quarterly payment plan. In the future, the department will have staff review the data base on a monthly basis and follow

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up with each facility that has a payment are due that month. This should assure that all payments are made prior to issuing the next year's license.

*Recommendation:*

- *The department should have a process in place to update license applications and notify potential licensees in advance of statutory changes that increase license fee amounts and to resolve instances when licensees inadvertently pay an insufficient amount.*

Response: The department concurs with this finding and will adopt a standard procedure and practice for notifying licensees of fee changes and discontinue process out-dated applications.

*Recommendation:*

- *The department should promptly deposit receipts in accordance with statutory requirements.*

Response: The department concurs with this finding and will explore options to obtain 100% compliance with the statute.

*Recommendation:*

- *The department should improve security and safeguards over its incentive program items by:*
  - *maintaining all sensitive items in a secure central location;*
  - *conducting periodic physical inventories and spot checks of incentive items;*
  - *using inventory of incentive items in a timely manner;*
  - *monitoring the use and redemption of the items; and*
  - *establishing a reorder cycle based on the use of the items and current supply on hand to meet the needs of the program.*

Response: The department finds that incentive programs provide value to a variety of Public Health programs, and will continue to use incentives in compliance with federal and state guidelines. The department does concur with these recommendations and will explore a centralized storage and oversight option to eliminate exposure to risks.

*Recommendation:*

- *The department should record the ventilators in its fixed asset database and should identify them as State of Minnesota assets by affixing an asset sticker to the equipment.*

Response: The department concurs with this recommendation. Department staff has attached the State of Minnesota Asset sticker to each ventilator and made sure they are included in the fixed asset database.

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*Recommendation:*

- *The department should improve internal controls over its payroll and personnel activities by:*
  - *using the payroll register to verify the accuracy of pay rates, hours worked, and type of leave taken;*
  - *conducting a review of transactions processed by backup approvers, as required by PAY 0017; and*
  - *ensuring that all requests for overtime have been reviewed and authorized, as required by PAY0012.*

*Response:* The department will continue to improve its internal controls over its payroll and personnel activities by implementing the following:

1. Analyze a statistical sampling of the payroll register each pay period for accuracy of pay rates, hours worked and type of leave taken.
2. Create and review a report to detect excessive holiday pay
3. Provide education of all approvers regarding their roles and responsibilities as outline in state policy8/PAY0017.
4. Audit the Self Service Time Entry Audit Report to ensure that proper notification exist when a timesheet is not completed by the primary approver.
5. Provide education to Managers and Supervisors on MDH Overtime policy and audit to ensure compliance with PAY0012

*Recommendation:*

*The department should adjust the inaccurate holiday and floating holiday payments and the underpayment of the retroactive payroll adjustment.*

*Response:* The department concurs with this recommendation. The adjustments have been processed to correct the inaccurate holiday payments and the underpayment of the retroactive payroll adjustment.

*Recommendation:*

*The department should obtain prior approval before setting an initial pay rate higher than the limits established by state personnel rules.*

*Response:* The department concurs with this recommendation. The department will closely monitor this process to ensure approvals are in place prior to extension of an employment offer.

*Recommendation:*

*The Department of Health should maintain documentation to support all of its interagency personnel agreements to ensure that all terms and conditions have been met.*

*Response:* The department will prepare a policy that forms are completed and centrally filed in the Payroll Unit of the Financial Management Section.

*Recommendation:*

*The department should reassess its ability to eliminate incompatible access to the state's personnel and payroll system. If the department confirms that it needs to provide employees with*

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*incompatible access, it needs to develop effective mitigating controls, such as an independent review of transactions, and have those mitigating controls approved by the Department of Finance, as required by state policy*

Response: The department concurs with this recommendation. The department will immediately initiate a process to review its ability to eliminate incompatible access. The review and recommendations will be completed by February 2009.

*Recommendation:*

- *The department should ensure that funds provided to nongovernmental grantees are used in accordance with the grant agreements by:*
  - *verifying that all requests for reimbursement of expenditures contain adequate detail to ensure that items reimbursed are valid grant expenditures; and*
  - *incorporating fiscal components into all site visits, such as checking a grantee's support for its expenditures and employee timesheets and verifying the existence of assets purchased with grant funds*

Response: The Department concurs with this recommendation and is in the process of adopting new grant monitoring tools that are compatible with the Legislative Auditor's previous recommendations and the Department of Administration's Office of Grant Management policies and procedures for executive branch agencies.

*Recommendation:*

- *The department should inventory all cell phones and other wireless devices and periodically monitor the issuances and returns of these items to ensure they are properly accounted for.*

Response: The department believes its current process addresses this recommendation sufficiently. Currently the department compares monthly invoices received for cell phones to the data base of issued devices. The department also sends out a random selection of 5% of the cell phone invoices to verify the cell phone is still in use by the person who was issued the cell phone.

*Recommendation:*

- *The department should improve its internal controls over cell phone use by:*
  - *requiring all cell phone and other wireless device users to complete and sign an acknowledgement of receipt form;*
  - *ensuring employees keep records identifying personal calls or report the cell phone costs as income to the employees;*
  - *providing employees with monthly cell phone usage records for review;*
  - *and establishing a process to periodically review the use of department issued cell phones.*

Response: The department believes we are in general compliance with these recommendations, balancing the resources available compared to the cost of full compliance. The department currently has a signed "Acknowledgement of Receipt" form for each employee who has been

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issued a cell phone. In addition, department policy requires that each employee who makes a personal call notify their supervisor of each occurrence. This occurrence is then noted on the invoice when the invoice is received. The department also sends out a random selection of 5% of the cell phone invoices received for employees to review and certify that no personal calls were made. Finally, the department is currently working with the State of Minnesota's current cell phone service provider to develop an electronic database that can be downloaded and sent to every employee on a monthly basis.

*Recommendation:*

- *The department should conduct a cost analysis to determine whether providing a state vehicle would be more cost effective than paying mileage reimbursements for employees with significant job-related travel requirements.*
- *The department should pay the lower mileage rate when allowed or required by employee bargaining agreements.*

Response: The department concurs with this recommendation. The department has already examined a list of employees that were reimbursed for mileage expenses exceeding \$5,000 per year. The department will analyze the data and determine which employees should be offered a state car for business purposes. If these identified employees decline the use of a state car, their future personal vehicle mileage will then be reimbursed at the lower rate. In addition, the department will assign staff to review private vehicle mileage reimbursement on a semi-annual basis and determine if any changes are necessary.

*The department should obtain and retain cardholder agreements from all cardholders in accordance with the state's purchasing card policy.*

Response: The department concurs with this recommendation and now currently keeps a copy of the cardholder agreement attached to the copy of the application form in the files of the department's Credit Card Administrator in Financial Management.

I have assigned Craig Acomb, the agency's Chief Financial Officer, to oversee these activities to address the recommendations in your report before the end of this current state fiscal year. I want to thank you for the respectful manner in which this audit was conducted.

Sincerely,

*Jeanne Magnan  
Deputy Commissioner*

*for* Sanne Magnan, M.D., Ph.D.  
Commissioner  
P.O. Box 64975  
St. Paul, MN 55164-0975