



FINANCIAL AUDIT DIVISION REPORT

Department of Health
Federal Compliance Audit
Year Ended June 30, 2009

March 4, 2010

Report 10-03

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 4, 2010

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Dr. Sanne Magnan, Commissioner
Minnesota Department of Health

This report presents the results of our audit of certain federal financial assistance programs administered by the Department of Health during fiscal year 2009. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Department of Health.

We discussed the results of the audit with department staff at an exit conference on February 17, 2010. The audit was conducted by Amy Jorgenson, CPA, (Audit Manager) and Lat Anantaphong, CPA, (Auditor-in-Charge), assisted by auditors Adam Spooner and Lindsay Tietze.

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 4, 2010.

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

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Cecile M. Ferkul

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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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 2009. However, the department had several internal control weaknesses, as noted in the five findings presented in this report.

The department resolved three of the six findings included in our prior audit report and partially resolved the other three. The department resolved prior findings related to noncompliance with federal requirements for documenting time charged to federal programs, incompatible access to the state's accounting system, and monitoring subrecipient activities. However, the department did not identify, analyze, and document its internal controls or accurately report financial activity on the Schedule of Expenditures of Federal Awards. The department also did not always comply with federal suspension and debarment requirements.

Findings

- Prior Finding Partially Resolved: The Department of Health did not identify, analyze, and document its internal controls related to business operations and the schedule of federal expenditures. ([Finding 1, page 5](#))
- Prior Finding Partially Resolved: The department did not accurately report financial activity on the Schedule of Expenditures of Federal Awards. ([Finding 2, page 6](#))
- Prior Finding Partially Resolved: The department did not always comply with federal suspension and debarment requirements. ([Finding 3, page 6](#))
- The department did not comply with state equipment policies and procedures. ([Finding 4, page 7](#))
- The department did not comply with state procurement requirements related to special expenses. ([Finding 5, page 8](#))

Audit Scope

We audited these programs, which were material to the State of Minnesota's federal program compliance for fiscal year 2009:

- Special Nutrition Program for Women, Infants and Children (CFDA 10.557)
- Childhood Immunization Grants (CFDA 93.268)

We also performed certain follow up procedures for these programs, which were previously material federal programs:

- Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA 93.283)
- Centers for Disease Control and Prevention – Public Health Emergency Preparedness (CFDA 93.069)

Department of Health

Federal Program Overview

The Department of Health administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.¹ Table 1 identifies these major federal programs.

Table 1
Major Federal Programs
Administered by the Department of Health
Fiscal Year 2009

<u>CFDA¹</u>	<u>Program Name</u>	<u>Expenditures</u>
10.557	Special Nutrition Program for Women, Infants and Children (WIC)	\$95,870,633
93.268	Childhood Immunization Grants ²	\$35,596,725

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

²The Childhood Immunization Program's federal expenditures included \$30.8 million of vaccinations and \$4.8 million of financial assistance.

Source: Minnesota Accounting and Procurement System for fiscal year 2009 and Minnesota Department of Health summary of vaccinations received from the Centers for Disease Control.

Objectives, Scope, and Methodology

The objective of our audit was to determine whether the Department of Health complied with federal program requirements in its administration of these federal programs for fiscal year 2009 and to determine whether the department had resolved issues from past audits, including issues related to federal programs that were not major programs in 2009.² This audit is part of our broader federal single audit objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are

¹ We defined a major federal program for the State of Minnesota in accordance with a formula prescribed by the federal Office of Management and Budget as a program or cluster of programs whose expenditures for fiscal year 2009 exceeded \$30.1 million.

² Office of the Legislative Auditor's Financial Audit Division Report 09-06, *Department of Health Federal Program Audit*, issued March 26, 2009. This audit of the state's 2008 compliance with federal program requirements included two programs that were not major programs in fiscal year 2009. Those programs were the Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA 93.283), and the Centers for Disease Control and Prevention – Public Health Emergency Preparedness (CFDA 93.069). Expenditures for these programs in fiscal year 2009 were about \$14 million and \$15 million, respectively.

applicable to each of its federal programs.³ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America and with the U.S. Office of Management and Budget's *Circular A-133 Compliance Supplement*.

Conclusion

The Department of Health generally complied with and had controls to ensure compliance with certain provisions of laws, regulations, contracts, and grants applicable to its major federal programs for fiscal year 2009. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report on Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about control and compliance weaknesses.

³ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 11, 2009, on the State of Minnesota's basic financial statements for the year ended June 30, 2009. In accordance with *Government Auditing Standards*, we also issued our report 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. (Office of the Legislative Auditor's Financial Audit Division Report 10-01, *Report on Internal Control Over Financial Reporting*, issued February 11, 2010.)

Findings and Recommendations

Prior Finding Partially Resolved:⁴ The Department of Health did not identify, analyze, and document its internal controls related to business operations and the schedule of federal expenditures.

The Department of Health did not have a comprehensive risk assessment regarding its internal controls over compliance with federal single audit requirements. A comprehensive internal control structure is critical to preparing an accurate Schedule of Expenditures of Federal Awards and safeguarding federal resources. The department has an increased likelihood of a control deficiency if it does not clearly communicate to all staff its risks, control activities, and monitoring policies and procedures.

State policy stipulates that agency management has the responsibility to identify, analyze, and manage business risks that impact an entity's ability to maintain its financial strength and the overall quality of its products and government services.⁵ This policy also requires communication of the internal control policies and procedures to all staff so they understand what is expected of them and the scope of their freedom to act. The policy further requires follow-up procedures that, at a minimum, should include ways to monitor results and report significant control deficiencies to individuals responsible for the process or activity involved, including executive management and those individuals in a position to take corrective action. Audit standards reinforced management's responsibility to have effective internal controls over its financial operations.⁶ The federal government expects that those controls also ensure compliance with federal program requirements.

The Department of Health was aware of certain risks, had many control activities in place, and performed selected internal control monitoring functions. The department communicated with the Department of Management and Budget's internal control unit to gain centralized guidance in determining the best practices for internal control.

Findings 2 through 5 identify deficiencies in the department's internal control procedures and specific noncompliance with federal requirements which were not prevented or detected by the department's internal control structure. These

Finding 1

⁴ Unless otherwise noted, all prior audit findings mentioned in this report are from the Office of Legislative Auditor's Financial Audit Division Report 09-06, *Department of Health Federal Compliance Audit*, issued March 26, 2009.

⁵ Department of Management and Budget Policy Number 0102-01.

⁶ American Institute of Certified Public Accountants *Statement on Auditing Standards #109: Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement*.

deficiencies created an unacceptable risk of noncompliance or did not prevent or detect the noncompliance. It is likely that the department will continue to have noncompliance and weaknesses in internal controls over compliance until it operates within a comprehensive internal control structure.

Recommendation

- *The department should regularly review and clearly document its risks, control activities, and internal control monitoring functions for its key business processes.*

Finding 2

Prior Finding Partially Resolved: The Department of Health did not accurately report financial activity on the Schedule of Expenditures of Federal Awards.

The department did not accurately report financial activity on its 2009 Schedule of Expenditures of Federal Awards for the Special Nutrition Program for Women, Infants and Children (CFDA 10.557). The department did not exclude \$2.5 million of infant formula rebates that were receivable at June 30, 2008, that the department had included in its fiscal year 2008 federal schedules. The department's controls over the preparation of this schedule should have included a step to ensure that it eliminated rebate amounts reported in the prior period.

Recommendation

- *The department should improve internal controls over preparation of its Schedule of Expenditures of Federal Awards to ensure that it accurately reports program rebate amounts.*

Finding 3

Prior Finding Partially Resolved: The Department of Health did not always comply with federal suspension and debarment requirements.

The department could not show that it had verified whether certain vendors with contracts greater than \$25,000, but less than \$100,000, had been suspended or debarred by the federal government or by the state.⁷ Although none of the vendors we tested had been suspended or debarred, the department's procurement process did not include a step to verify the vendor's eligibility for participation in a federally funded program.

Federal requirements prohibit state agencies from contracting with vendors listed as suspended or debarred.⁸ Specifically, state agencies must ensure no contracted

⁷ Contracts equal to or greater than \$100,000 all included a certification by the vendor that it was not suspended or debarred.

⁸ U.S. Office of Management and Budget Circular A-133, Part 3 – Compliance Requirements.

vendors over \$25,000 are suspended or debarred. In July 2009, the Department of Administration amended the state's standard contract language to include a certification by the vendor that it is not suspended or debarred. However, vendors determined to be sole source providers of services used a different contract that did not include the updated language.

Recommendation

- *The department needs to comply with federal requirements by verifying vendors are not suspended or debarred for all federally funded contracts exceeding \$25,000.*

The Department of Health did not comply with state equipment policies and procedures.

Finding 4

The department did not properly manage equipment purchased by the Special Nutrition Program for Women, Infants and Children (CFDA 10.557), Centers for Disease Control Technical Assistance Program (CFDA 93.283⁹), and Centers for Disease Control Public Health Emergency and Preparedness Program (CFDA 93.069¹⁰). Federal regulations require that the department manage equipment acquired under a federal grant in compliance with the state's policies and procedures.¹¹

The department had the following errors in its equipment management:

- The department coded sensitive equipment items costing less than \$5,000 as supplies in the state's accounting system. Sensitive items are items generally for personal use, or that could be easily sold, and are subject to pilferage or misuse, such as computers.¹² The Department of Management and Budget established a list of codes for state agencies to identify expenditures, including specific codes under equipment, for computers and peripherals regardless of amount.¹³ By not properly identifying equipment purchases in the accounting system, the department increased the risk that it would not include the equipment on its fixed asset lists or track sensitive items.
- Thirteen of seventeen sensitive items we reviewed did not have an asset label to identify the item as the property of the State of Minnesota. State

⁹ Federal Awards 3U58DP522818–05W1, 5U58DP524466–04, 5U58DP524466–05, 5U01CI000313–04, 5U01CI000313–05, 5U58DP000802–02 and 5U58DP000857–02.

¹⁰ Federal Awards 5U90TP516981–08 and 5U90TP516981–09.

¹¹ U.S. Office of Management and Budget Circular A-133, Part 3 – Compliance Requirements.

¹² Department of Administration Information Bulletin 03-19.

¹³ Department of Management and Budget Policy Number 0207-01.

policy requires departments to identify all sensitive items with a State of Minnesota fixed asset property label.¹⁴

Recommendation

- *The department should improve its controls over equipment management to ensure that it properly records sensitive equipment purchases on the state's accounting system and identifies sensitive items as the property of the State of Minnesota.*

Finding 5

The Department of Health did not comply with state procurement requirements related to special expenses.

The department did not properly approve and encumber federal funds for special expenses before incurring the liability in the Centers for Disease Control Public Health Emergency and Preparedness Program (CFDA 93.069¹⁵). Federal requirements direct state departments to comply with state policies and procedures for procurements from federal funds.¹⁶ State policy requires departments to obtain approval and encumber funds before incurring an obligation for special expenses.¹⁷

For 2 of 25 special expense transactions we tested, department staff incurred liabilities before obtaining approval. The first item was an obligation totaling \$23,000 in federal and state funds for an annual community health conference. The department coordinated this October 2008 conference to bring together community health policy makers and workers from around the state to discuss core public health issues; however, the department did not approve or encumber the funds until late November 2008. The other item was an obligation of less than \$200. The department incurred the liability in mid-December 2008, but did not approve or encumber the funds until January 2009. Advance approval of special expenses reduces the risk of unallowable or unreasonable expenditures and encumbrance of the funds ensures the department has sufficient funds available at the time of payment. Both items cited here were allowable under federal guidelines.

Recommendation

- *The department should comply with state requirements by authorizing and encumbering special expenses before incurring the liability.*

¹⁴ Department of Administration Information Bulletin 03-19.

¹⁵ Federal Awards 5U90TP516981-08 and 5U90TP516981-09.

¹⁶ U.S. Office of Management and Budget Circular A-133, Part 3 – Compliance Requirements.

¹⁷ Minnesota Department of Administration Policy FMR-4D-01. This policy defines special expenses as costs incurred in connection with legitimate business functions of the agency or assigned duties of an agency employee for which a higher level of scrutiny is deemed necessary and which are not reimbursable through the normal expense reimbursement provisions.



Protecting, maintaining and improving the health of all Minnesotans

February 26, 2010

Mr. James R. Nobles
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 Federal Compliance Audit for the Minnesota Department of Health for the year ending June 30, 2009.

Recommendation:

- *The department should regularly review and clearly document the risks, control activities and internal control monitoring functions for its key business processes.*

Response: The department concurs with this recommendation. Over the past year department staff have attended Internal Control Workshops, implemented the Minnesota Management and Budget (MMB) Code of Conduct Trainings agency-wide and met with the newly formed MMB Internal Control and Accountability unit. Compliance with this recommendation will be an ongoing process as the department continues to research information related to this recommendation and seeks guidance from MMB's internal control unit on risk assessment and best practices for internal control.

Recommendation:

- *The department should improve internal controls over preparation of its Schedules of Expenditures of Federal Awards to ensure that it accurately reports program rebate amounts.*

Response: The department concurs with this recommendation. The department will continue to work closely with MMB in order to show correct rebate amounts in the preparation of the federal schedules.

Recommendation:

- *The department needs to comply with federal requirements by verifying vendors are not suspended or debarred for all federally funded contracts exceeding \$25,000.*

Response: The department concurs with this recommendation and is now in full compliance with this recommendation. The department has amended internal contract processes to include verification if the vendor's eligibility for participation in a federally funded program for sole source contracts.

Mr. James R. Nobles

February 26, 2010

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Recommendation:

- *The department should improve its controls over equipment management to ensure that it properly records sensitive equipment purchases on the state's accounting system and identifies sensitive items as property of the State of Minnesota.*

Response: The department concurs that it should properly identify sensitive items as property of the State of Minnesota. The Department's current policy and procedure for Fixed Asset Inventory Management requires staff to attach a "PROPERTY OF THE STATE OF MINNESOTA" sticker on each sensitive item purchased. The department will review its procedures to ensure the policy is followed.

The department also concurs with that portion of the recommendation that requires the department to properly record sensitive equipment purchases on the state's accounting system; however, the department is caught in a reporting dilemma between the state and federal reporting requirements and the current MAPS system is unable to resolve the dilemma without significant resources being invested with limited benefit being received.

The department will work with MMB to explore options for an efficient method of resolving the dilemma, including working with MMB on designing the new accounting system to accommodate both definitions of equipment.

Recommendation:

- *The department should comply with state requirements by authorizing and encumbering special expenses before incurring the liability.*

Response: The department concurs with this recommendation. While the department had an approval process for the annual community health conference, that process did not follow state policies and procedures for encumbering funds. The department will review its internal approval and encumbrance procedures and the use of special expense forms for large conferences and amend as necessary to ensure state policies and procedures are followed.

I have assigned Barb Juelich, the agency's Chief Financial Officer, to oversee these activities to address the recommendations in your report. With the exception of the first recommendation, the department will comply with the recommendations before the end of this current state fiscal year. Compliance with the risk assessment and internal controls documentation will coincide with the timeline of guidance that is provided by Minnesota Management and Budget. I want to thank you for the respectful manner in which the audit was conducted.

Sincerely,

/s/ Sanne Magnan

Sanne Magnan, M.D., Ph.D.

Commissioner

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