



FINANCIAL AUDIT DIVISION REPORT

Department of Health

Federal Compliance Audit

Fiscal Year 2010

April 22, 2011

Report 11-09

FINANCIAL AUDIT DIVISION

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OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

April 22, 2011

Representative Michael Beard, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Edward Ehlinger, 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 2010. 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 April 15, 2011. The audit was conducted by Michael Hassing, CPA, CISA (Audit Manager) and Lat Anantaphong, CPA, (Auditor-in-Charge), assisted by auditor Adam Spooner, CPA.

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 April 22 2011.

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

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

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 2010. However, the department had some internal control weaknesses, as noted in the four findings presented in this report.

The department made some progress toward developing a comprehensive internal control structure, by identifying, analyzing, and documenting some internal controls, finalizing a self-assessment tool provided by the Department of Management and Budget, and hiring an internal audit director. The department, however, needs to continue to develop and broaden this work within the department.

The department fully resolved four of the five findings included in our prior audit report and partially resolved one finding.

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 7](#))
- The Department of Health did not accurately report American Recovery and Reinvestment Act (ARRA) funds to the federal government and did not communicate necessary requirements to subrecipients receiving ARRA funds. ([Finding 2, page 8](#))
- The Department of Health inappropriately charged some federal program costs to a prior grant award period. ([Finding 3, page 9](#))
- The Department of Health did not accurately record the liability date for certain transactions in the state's accounting system. ([Finding 4, page 10](#))

Audit Scope

We audited the following programs, which were material to the State of Minnesota's federal program compliance for fiscal year 2010:

- Special Nutrition Program for Women, Infants and Children (CFDA 10.557)
- Public Health Emergency Preparedness and Response (CFDA 93.069)
- Immunization Grants (CFDA 93.268 and 93.712¹)

¹ The American Recovery and Reinvestment Act funded federal grants under CFDA 93.712.

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.² Table 1 identifies these major federal programs.

Table 1
Major Federal Programs
Department of Health
Fiscal Year 2010
(in thousands)

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Federal Expenditures</u>	<u>Federal ARRA</u> ² <u>Expenditures</u>	<u>Total</u>
10.557	Special Nutrition Program for Women, Infants and Children (WIC)	\$94,526	\$ 0	\$94,526
93.069	Public Health Emergency Preparedness & Response ³	\$48,967	\$ 0	\$48,967
	<u>Immunization Grant Cluster:</u>			
93.268	Immunization Grants ⁴	\$40,091		\$40,091
93.712	Immunization Grants – ARRA	\$ 0	\$3,256	\$ 3,256
	Immunization Grant Cluster Total			<u>\$43,347</u>

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

²American Recovery and Reinvestment Act.

³The Public Health Emergency Preparedness and Response Program's federal expenditures included \$19.9 million of H1N1 non-cash vaccines and \$29.1 million of financial assistance.

⁴The Immunization Grant Program's federal expenditures included \$35.4 million of non-cash vaccines and \$4.7 million of financial assistance. The program received an additional \$2.8 million of non-cash vaccines and \$0.5 million in financial assistance funded by the American Recovery and Reinvestment Act (Recovery Act).

Source: Minnesota Accounting and Procurement System for fiscal year 2010 and Minnesota Department of Health's summary of vaccines received from the Centers for Disease Control.

² 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 2010 exceeded \$30 million.

Objective, 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 2010 and to determine whether the department had resolved issues from past audits. 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 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 2010. However, the department had some weaknesses, as noted in the following *Findings and Recommendations* section.

The department resolved four of the five prior audit findings: inaccurate reporting of financial activity on the Schedule of Expenditures of Federal Awards; noncompliance with suspension and debarment requirements for single source professional and technical contracts; miscoding and insufficient tracking of sensitive items as equipment; and not appropriately procuring special expenses specific to the Public Health Emergency Preparedness and Response Program (CFDA 93.069).

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

³ The State of Minnesota's single audit includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 20, 2010, on the State of Minnesota's basic financial statements for the year ended June 30, 2010. 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 11-02, [Report on Internal Control Over Financial Reporting](#), issued February 18, 2011.)

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.

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.

Finding 1

During fiscal year 2010, the department made some progress in the development of certain aspects of their comprehensive internal control structure. These improvements included completing a self-assessment tool from the Department of Management and Budget and drafting risk assessments for the Immunization Grants Program. In addition, the department hired an internal audit director to take the lead on finalizing risk assessments for all major processes at the department. Although the department made progress toward developing a more comprehensive internal control structure, the department had not fully assessed and documented its risks over compliance with federal single audit requirements for its major federal programs or other significant financial control cycles. As a result, the department continued to have some deficiencies in control procedures and specific noncompliance with federal requirements that were not prevented or detected by the department's current monitoring and review processes. These deficiencies are presented as Findings 2 through 4 of this report.

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.

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

⁴ Office of Legislative Auditor's Financial Audit Division Report 10-03, *Department of Health Federal Compliance Audit*, issued March 4, 2010.

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*.

policies and procedures especially when the department's environment changes. The department had numerous changes in financial management staff during fiscal year 2010. Without a comprehensive control structure as a guide, new staff may not understand and perform the required processes as a more experienced staff would, which may lead to the increased risks of errors or fraud occurring without detection, and may have contributed to the control deficiencies discovered during this audit. 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 continue to develop its comprehensive internal control structure by regularly reviewing and clearly documenting its risks, control activities, and internal control monitoring functions for federal program requirements.*

Finding 2

The Department of Health did not accurately report American Recovery and Reinvestment Act (ARRA) funds to the federal government and did not communicate necessary requirements to subrecipients receiving ARRA funds.

The department did not accurately report to the federal government the amount of American Recovery and Reinvestment Act (ARRA) funds received and expended for the quarter ended June 30, 2010. For the Immunization and Vaccines for Children Grants Program (CFDA 93.712⁷), the department erroneously reported \$113,426 (the same amount it reported for the quarter ended March 31, 2010), instead of \$247,214, the correct amount for the quarter ended June 30, 2010. In addition, the department omitted \$18,426 from its report for the quarter ended September 30, 2010. As a result, the information available on the federal ARRA website (www.recovery.gov) was not accurate for the reporting period. An independent review at the department and at the Department of Management and Budget did not detect these errors.

Federal regulations require the state to report total expenditures, total receipts, and other funding detail on a quarterly basis to the federal government.^{8,9} This reporting requirement provides the public with more transparency and increases accountability of agencies administering ARRA funds.

⁷ Federal Award 3H23IP522551 – 07S2.

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

⁹ American Recovery and Reinvestment Act of 2009, Public Law 111-5, Title XV – Accountability and Transparency, Section 1512.

In addition, for the Immunization Grants Program (CFDA 93.712¹⁰), the department did not provide subrecipients with specific federal award numbers or formally communicate the requirement to separately report ARRA funds for inclusion on the Schedule of Expenditures of Federal Awards. The federal government requires pass-through entities, like the state, to identify the federal award number, CFDA number, and the amount of ARRA funds paid to grantees. Moreover, pass-through entities must inform subrecipients that they need to separately disclose ARRA funds¹¹ on their Schedule of Expenditures of Federal Awards and other expenditure reports. The lack of formal communication of federal requirements to subrecipients may lead to errors at the local level in reporting correct information to the department and, ultimately, to the federal government.

Recommendations

- *The department should improve its monitoring and review controls over federal quarterly ARRA reporting requirements to ensure that it submits accurate and complete information to the federal government.*
- *The department should formally communicate to its subrecipients the necessary federal grant identification information and the requirements for separate reporting of ARRA funds on the Schedule of Expenditures of Federal Awards.*

The Department of Health inappropriately charged some federal program costs to a prior grant award period.

Finding 3

The department charged some federal program costs to a prior grant period, although those costs were not obligations of that prior grant period. Federal regulations only allow the state to charge costs resulting from obligations incurred during the specific funding period of the grant award.^{12, 13} The department did not have controls in place to ensure that it complied with this requirement.

The department inappropriately charged the following costs to the prior grant period:

¹⁰ Federal Awards 3U50CI000483 – 03S2, 3U01CI000313 – 05S4, 3H23IP522551 – 07S1 and 3H23IP522551 – 07S2.

¹¹ U.S. Office of Management and Budget Circular A-133, Part 3 – Compliance Requirements – Section L – Reporting; and Appendix VII, Other OMB Circular A-133 Advisories, June 2010.

¹² U.S. Office of Management and Budget Circular A-133, Part 3 – Compliance Requirements.

¹³ Obligations means the amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the non-federal entity during the same or a future period.

- The department charged \$2,221 for costs it incurred between May and July 2010 in the Immunization Grant Program (CFDA 93.268¹⁴) to the prior grant award period (January 2009 to December 2009). After being made aware of the error by the auditors, the department corrected the error and charged these costs to the 2010 grant period.
- The department charged \$2,696 of salary and fringe benefits incurred between November 2009 and March 2010 for the Public Health Emergency Preparedness Bioterrorism Grant Program (CFDA 93.069¹⁵) to the grant award period ending August 9, 2009. After being made aware of the error by the auditors, the department stated that it was unable to correct the error because it had closed out the grant.

Recommendations

- *The department should establish controls to ensure that it charges costs to the correct grant period.*
- *The department should work with the federal grantor agency to determine the appropriate resolution of the uncorrected costs charged to the wrong grant period.*

Finding 4

The Department of Health did not accurately record the liability date for certain transactions in the state's accounting system.

The department did not always correctly record in the state's accounting system the date when the state incurred a liability or recognized a receipt. The state uses the record date to determine in which fiscal year to recognize the transaction for financial reporting to the federal government.

The department had the following record date errors in major federal programs transactions we tested:

- The department did not accurately record the record date for 18 of 61 tested expenditures for administrative goods and services funded by the Immunization Grants (CFDA 93.268 and 93.712) and Public Health Emergency Preparedness and Response (CFDA 93.069¹⁶) programs. Six of the errors resulted in the state recognizing the expenditure in the wrong

¹⁴ Federal Award 5H23IP522551 – 07.

¹⁵ Federal Award 5U90TP516981 – 09.

¹⁶ Federal Awards 5U90TP516981 – 09, 5U90TP516981 – 10, 3U90TP516981 – 10S1, 1U90TP000194 – 01 and 1H75TP000348 – 01.

fiscal year, understating fiscal year 2010 federal expenditures by a total of \$10,144.¹⁷

- The department did not use the correct record date for 61 of 90 payments related to immunization practices improvement site visits under the Immunization Grants Program (CFDA 93.268¹⁸). As a result, the department coded \$12,650 for services completed by June 30, 2009, as fiscal year 2010 expenditures and coded \$18,650 for services completed by June 30, 2010, as fiscal year 2011 expenditures.
- The department did not use the correct record date for 12 of 13 monthly rebates received from baby formula manufacturers through the Special Nutrition Program for Women, Infants and Children (CFDA 10.557). At the end of the year, the department did detect and correct the record date for a rebate of over \$2.5 million; without the correction, the rebate would have been recognized in the wrong fiscal year on the Schedule of Expenditures of Federal Awards. The department could more effectively prevent errors by using correct record dates throughout the year, rather than relying on a year-end analysis to detect errors.

While these errors were immaterial to the overall expenditures of these major federal programs, the department has an increased risk that these control weakness and undetected errors could potentially lead to material errors on the Schedule of Expenditures of Federal Awards.

Recommendation

- *The department should ensure that it uses the correct record date to identify liabilities and recognize revenue in the state's accounting system.*

¹⁷ Total split between Immunization Program (\$4,914) and Public Health Emergency Response Program (\$5,230).

¹⁸ Federal Awards 5H23IP522551 – 07 and 5H23IP522551 – 08.



Protecting, maintaining and improving the health of all Minnesotans

April 15, 2011

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar St.
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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, 2010.

Recommendation: The department should continue to develop its comprehensive internal control structure by regularly reviewing and clearly documenting its risks, control activities, and internal control monitoring functions for federal program requirements.

Response: The department concurs with this recommendation. In January 2011, the department hired an Internal Audit Director who is actively working on this process with department management and staff. Amy Jorgenson is responsible for implementation of this recommendation for major federal programs by June 30, 2011.

Recommendation: The department should improve its monitoring and review controls over federal quarterly ARRA reporting requirements to ensure that it submits accurate and complete information to the federal government.

Response: The department concurs with this recommendation. Another level of review will be implemented to ensure that the department reports correct numbers to Minnesota Management and Budget. Virginia Davis and Terry Smith are responsible for implementation of this recommendation starting with the report due for the quarter ended June 30, 2011.

Recommendation: The department should formally communicate to its subrecipients the necessary federal grant identification information and the requirements for separate reporting of ARRA funds on the Schedule of Expenditures of Federal Awards.

Mr. James R. Nobles
April 15, 2011
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Response: The department concurs with this recommendation. The department will make changes to its grant template to communicate the necessary elements of federal ARRA awards to subrecipients. Virginia Davis is responsible for implementation of this recommendation immediately.

Recommendation: The department should establish controls to ensure that it charges costs to the correct grant period.

Response: The department concurs with this recommendation. Virginia Davis is responsible to enhance controls in this area by June 30, 2011.

Recommendation: The department should work with the federal grantor agency to determine the appropriate resolution of the uncorrected costs charged to the wrong grant period.

Response: The department concurs with this recommendation. Virginia Davis and Terry Smith are responsible to communicate with HHS to resolve the matter by June 30, 2011.

Recommendation: The department should ensure that it uses the correct record date to identify liabilities and recognize revenue in the state's accounting system.

Response: The department concurs with this recommendation. A solution for the WIC rebate revenue has already been implemented. The department will coordinate efforts between program and fiscal staff to resolve record date issues for other types of expenditures, and will continue to monitor compliance once SWIFT is in place. Virginia Davis is responsible to implement this recommendation by the close of fiscal year 2011.

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

Sincerely,



Edward P. Ehlinger, MD, MSPH
Commissioner
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