

**STATEWIDE AUDIT
MINNESOTA DEPARTMENT OF HEALTH
MANAGEMENT LETTER
YEAR ENDED JUNE 30, 1985**

JANUARY 1986



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708

JAMES R. NOBLES, LEGISLATIVE AUDITOR

Sister Mary Madonna Ashton, Commissioner
Minnesota Department of Health
717 Delaware Street Southeast
Minneapolis, Minnesota 55440

Dear Sister Ashton:

We have reviewed certain accounting procedures and controls for your department, as part of our statewide audit of the State of Minnesota's fiscal year 1985 financial statements and federal programs. The scope of our work has been limited to:

- those aspects of your department which have material impact on any of the state's various funds and account groups shown on the financial statements;
- the federal programs included in the Single Audit scope, specifically the Special Supplemental Food Program for Women, Infants, and Children (CFDA# 10.557), the Maternal and Child Health Services Block Grant (CFDA# 13.994), and the Preventive Health and Health Services Block Grant (CFDA# 3.991); and
- the status of prior audit recommendations.

We emphasize that this has not been a complete financial and compliance audit of all programs within your department. However, the Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by your department in fiscal year 1985.

This management letter contains a reiteration of our prior recommendations which have not yet been implemented. Prior audit recommendations repeated in this text are denoted under the caption, "Prior Recommendations Not Implemented" or "Prior Recommendations Partially Implemented." Attached to your management letter is a summary of the progress on all audit recommendations developed during our financial audit of Minnesota's fiscal year 1984 financial statements. The federal government is ultimately responsible for determining resolution of Single Audit recommendations. The appropriate federal program agency staff will contact your agency to review your efforts toward corrective actions for 1985 and prior years. They will also notify you of their final resolution.

The recommendations included in this letter are presented to assist you in improving accounting procedures and controls. Progress on implementing these recommendations will be reviewed during our audit next year.

CURRENT FINDINGS AND RECOMMENDATIONS

PRIOR AUDIT RECOMMENDATION PARTIALLY IMPLEMENTED: Procedures used by the Minnesota Department of Health (MDH) for requesting and receiving WIC (CFDA #10.557), MCH (CFDA #13.994), and PHS (CFDA #13.991) funds need improvement.

Last year we recommended that MDH request federal funds based on the actual costs incurred and the immediate cash needs of each program it administers, as required by Department of Treasury Circular 1075 Section 205.4 which states:

"Cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization..."

"Immediate cash requirements," for the purposes of this review, has been interpreted by our office to be expenditures made within three days.

Again this year, we determined that federal money was being held in state accounts for excessive periods of time as defined by Circular 1075. On various dates tested, excess balances in the WIC administrative account ranged from \$72,299 to \$324,603; excesses in the PHS account ranged between \$3,413 to \$26,198; and excesses in the MCH account were documented as being from \$7,935 to \$141,117. We also found that one tested request in the MCH program was not excessive and \$9,086 of state funds had to be advanced to cover the expenditures. Excessive balances seem to have been caused by the lack of close monitoring and by not requesting money on a routine basis.

In addition to the problems cited in the accounts discussed above, similar cash management problems were found with the WIC coupon account. The WIC coupon redemption program is administered through a bank which processes and pays for coupons that are sent directly to the bank by food stores. WIC funds are transferred from the federal government to the state treasury and deposited in the WIC administration account. MDH then deposits the amount drawn for coupon redemption in the WIC bank account. The bank charges for negative cash balances and services performed and offsets the charges with interest earnings. The charges are based on a flat rate per service provided and interest is calculated using the average daily balance times a percentage of the treasury bill rate.

MDH consistently maintains excessive cash balances in the WIC coupon account. For example, the average daily cash balance in the WIC coupon bank account was \$621,347 in November 1984 and \$1,290,070 in May 1985. The bank pays interest on the average cash balance in the account but the rate paid is less than the rate the federal government must pay to borrow funds. The result is a net loss of interest income to the federal government. We found no evidence that the federal government has provided formal approval for holding a WIC minimum coupon bank balance.

Excessive cash balances can be reduced by requesting smaller amounts of funds more frequently. Currently, PHS and MCH funds are drawn down about once a week. Weekly drawdowns should be effective, if they are correlated properly with payment dates. Our recommendation that requests for funds be based on actual expenditures has been implemented for the MCH and PHS programs in the spring of 1985.

The department continues to use estimated expenditures to determine the funds needed for the WIC program, however. The administrative portion of the WIC program is administered similarly to the MCH and PHS programs and the new procedures could be used to determine the appropriate amount of cash needed. WIC funds are drawn down monthly, although the WIC State Plan also allows for weekly draws. More frequent drawdowns would minimize the time between the drawdown and the expenditure.

MDH does not know the immediate cash needs for WIC coupon redemption, because coupons are submitted directly to the bank. More frequent requests based on actual cash balances and estimated redemption costs would minimize the excessive cash balances. Drawdowns for WIC could be made weekly at a minimum and more frequently if necessary.

RECOMMENDATION:

- 1. MDH should limit federal cash requests to actual, immediate requirements and request money as frequently as necessary to eliminate excessive cash balances in both the administrative accounts and the WIC coupon account.*

PRIOR AUDIT RECOMMENDATION NOT IMPLEMENTED: Time distribution records to support payroll charges to federal programs need improvement.

Last year we found that the department's method of distributing payroll costs for employees working on two or more programs was not in compliance with requirements established by U.S. OMB Circular A-87 which states:

"Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the state, local, or Indian tribal government. Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort."

In our review of the payroll transactions related to the WIC (CFDA #10.557), MCH (CFDA #13.994), and PHS (CFDA #13.991) programs, we determined that all employees were recording actual hours worked, but were not allocating the hours between programs on their time sheets. The department, however, continues to allocate payroll costs on an estimated basis for some employees with split funding. Time studies, which are used to adjust to actual costs the payroll charged to a specific federal program, are done only by employees working on two or more federal programs and only for two weeks of each quarter. As a result of this policy, federal programs may be over/undercharged for the payroll costs of employees whose time is split between federal and nonfederal programs or whose two week time study is not representative of time spent on the program throughout the quarter. Because time studies were not prepared for all employees and all payroll periods, we were unable to determine the total monetary effect of this policy.

The department does not believe that use of the on-line payroll system available through the state central payroll division would be an efficient use of resources. Although we believe that the on-line payroll system is the best method for distributing payroll costs, the department may choose to implement an alternate method which allocates actual time worked on federal programs. Regardless of the method chosen, the department needs to implement a procedure to distribute actual time worked to the appropriate programs. MDH could contact staff from other state departments (Energy and Economic Development, Education) who have been successful in this area.

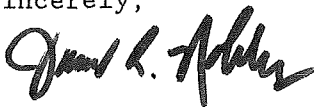
We found that one employee's time had been temporarily charged to the PHS program due to a cash shortage in the Reye Syndrome account, a federal program from which she should have been paid. All appropriate costs were subsequently transferred to the account, but this type of procedure bears a risk that the transfer would not be done, or would not be done correctly causing an overcharge to a federal program. Employees' time should be paid from the programs on which they work, and loans should not be made between federal programs to alleviate cash shortages.

RECOMMENDATION:

2. *MDH should use the on-line central payroll system to allocate payroll costs to federal programs or should develop an alternate method so that only actual hours worked are charged to federal programs.*

Thank you for the cooperation extended our staff during this audit.

Sincerely,



James R. Nobles
Legislative Auditor



John Asmussen, CPA
Deputy Legislative Auditor

Attachment

January 7, 1986

MINNESOTA DEPARTMENT OF HEALTH

Attachment

STATUS OF PRIOR AUDIT RECOMMENDATIONS
AND PROGRESS TOWARD IMPLEMENTATION

Drawdowns of federal money for the WIC (CFDA #10.557), MCH(CFDA #13.994), and PHS (CFDA #13.991) programs are not executed in conformance with federal guidelines.

RECOMMENDATION:

1. MDH should initiate procedures which will provide for the daily review of program expenditures. The drawdown of federal funds should be done in accordance with Circular 1075 requirements and the related criteria established by the federal grantor agency.

RECOMMENDATION PARTIALLY IMPLEMENTED. See current recommendation #1.

Adequate time distribution records were not available to support payroll charges to federal programs.

RECOMMENDATION:

2. MDH should utilize the new on-line payroll system to appropriately allocate payroll costs so that only actual hours worked are charged to federal programs.

RECOMMENDATION NOT IMPLEMENTED. See current recommendation #2.



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January 7, 1986

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
St. Paul, MN 55155

Dear Mr. Nobles:

We have reviewed your draft of the management letter concerning the Minnesota Department of Health (MDH) and met with your staff regarding the audit. We offer the following in response to your recommendations.

Recommendation

MDH should limit federal cash requests to actual, immediate requirements and request money as frequently as necessary to eliminate excessive cash balances in both the administrative accounts and the WIC coupon account.

Response

The department will immediately (January 21, 1986) begin drawing cash on a weekly basis for the WIC coupon account. Also, the department will continue to monitor payments/transfers from the administrative accounts in the same manner as in 1985 with one exception; we will prepare the letter of credit drawdown after documents have been batched for payment processing, which should rectify the problem. However, this procedure may cause some delay in payment.

Recommendation

MDH should use the on-line central payroll system to allocate payroll costs to federal programs or should develop an alternate method so that only actual hours worked are charged to federal programs.

Response

The department will be developing a formal procedure in response to a request from Mr. Monroe Woods, Regional Administrator for the Women, Infants and Children Program. This procedure will outline: (1) the responsibility of employees to prepare time studies and submit these time studies to the Financial Management Section; (2) the responsibility of the Financial Management Section to interpret the time studies, compute costs based on the time studies and make the necessary transactions in the Statewide Accounting payroll system. This will assure that only hours reported worked on a federal program will be charged to that federal program. However, two problems will arise with the procedure.

Problem one is that there will be cases where the hours reported are eligible for reimbursement from more than one federal program. The department will use its discretion in charging these hours to the appropriate program.

Problem two will arise if the cost of hours reported on a federal grant exceed the funds available. Again, the department will use its discretion in identifying an alternate funding source so as not to be in violation of the federal grant.

If you should have any questions or comments concerning our response, please contact Mr. David Hovet of our Financial Management Section at 623-5072.

Sincerely yours,



Sister Mary Madonna Ashton
Commissioner of Health

SMMA:DH:dmt