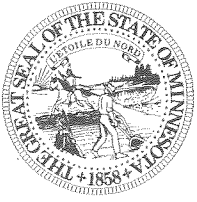


MINNESOTA DEPARTMENT OF HEALTH
FINANCIAL AND COMPLIANCE AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1986

SEPTEMBER 1987

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Phillip J. Riveness, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Sr. Mary Madonna Ashton, Commissioner
Minnesota Department of Health

Audit Scope

We have completed a financial and compliance audit of the Minnesota Department of Health (MDH) for the three years ended June 30, 1986. The introduction provides a brief description of the department's activities and finances. Our audit was made in accordance with generally accepted auditing standards, and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, and accordingly, included such audit procedures as we considered necessary in the circumstances. Our audit procedures are further described in the audit techniques section of this letter. Field work was completed on June 5, 1987.

We have issued separate management letters, dated February 19, 1985, January 7, 1986, and January 21, 1987, as part of our Statewide Financial and Single Audit work in the department for fiscal years 1984, 1985, and 1986. These management letters contained two recommendations each for fiscal years 1984 and 1985, and one recommendation for fiscal year 1986, relating primarily to internal control weaknesses in the administration of federal funds.

The audit objectives were to:

- study and evaluate major internal control systems at the Minnesota Department of Health and any administrative support provided to the health-related licensing boards, including a review of receipts, payroll, and administrative and grant disbursements;
- verify that financial transactions were made in accordance with applicable laws, regulations, and policies, including Minnesota Statutes Chapter 144, and other finance-related laws and regulations; and
- verify that financial transactions were properly recorded on the statewide accounting (SWA) system.

Management Responsibilities

The management of the Minnesota Department of Health is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly.

Because of inherent limitations in any system of internal accounting control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

The management of the Minnesota Department of Health is also responsible for the department's compliance with laws and regulations. In connection with our audit, we selected and tested transactions and records from the programs administered by the department. The purpose of our testing of transactions was to obtain reasonable assurance that the department had, in all material respects, administered its programs in compliance with applicable laws and regulations.

Audit Techniques

The Statewide Financial and Single Audits for fiscal years 1984, 1985, and 1986 covered material state and federal programs. The current audit, which also covered the three years ended June 30, 1986, supplements the Statewide Financial and Single Audits and was specifically designed to focus on those areas not previously audited.

Conclusions

In our opinion, except for the issues raised in Section II, recommendations 1-4, the system of internal accounting control of the Minnesota Department of Health in effect as of March 1, 1987, taken as a whole, was sufficient to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorizations.

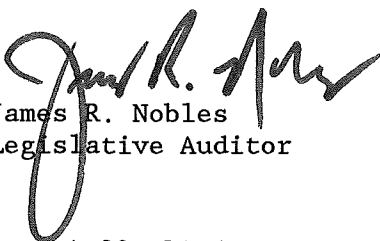
In our opinion, for the three years ended June 30, 1986, the Minnesota Department of Health administered its programs in compliance, in all material respects, with applicable finance-related laws and regulations.

Representative Phillip J. Riveness, Chairman
Members of the Legislative Audit Commission
Sr. Mary Madonna Ashton, Commissioner
Page 3

In our opinion, for the three years ended June 30, 1986, the Minnesota Department of Health properly recorded, in all material respects, its financial transactions on the statewide accounting (SWA) system.

Section II of this Audit Report contains the recommendations we developed during this audit. It is presented to assist the department in improving accounting procedures and controls. We will be monitoring and reviewing progress on implementing these recommendations during our audit next year.

We would like to thank the Minnesota Department of Health staff for their cooperation during this audit.



James R. Nobles
Legislative Auditor



John Asmussen
Deputy Legislative Auditor

August 20, 1987

MINNESOTA DEPARTMENT OF HEALTH

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. CURRENT FINDINGS AND RECOMMENDATIONS	2
AGENCY RESPONSE	5

AUDIT PARTICIPATION

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

John Asmussen, CPA	Deputy Legislative Auditor
Warren Bartz, CPA	Audit Manager
Jim Riebe	Auditor-in-Charge
Kari Bergum, CPA	Staff Auditor
Leslie Dosh	Intern
Chuck Hoistad, CPA	Staff Auditor
Ellen Merlin	Staff Auditor
Tammy Noren	Intern

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Department of Health at an exit conference which was held on July 9, 1987:

Sr. Mary Madonna Ashton, Commissioner
Thomas Maloy, Assistant Commissioner, Administration
David Hovet, Accounting Director

MINNESOTA DEPARTMENT OF HEALTH

I. INTRODUCTION

The Minnesota Department of Health exists to protect, maintain, and improve the health of the citizens of the state. This is accomplished through an organized system of programs and services performed by state and local agencies, and with the cooperation of the private sector. The department employs approximately 700 employees to administer its programs. Sister Mary Madonna Ashton is the Commissioner of the department.

The department administers three programs to protect the public health. The purpose of the Preventive and Protective Health Services Program is to reduce preventable diseases and minimize the impact of illness when it does occur. Activities within this program include surveillance and control of disease, education of health workers, analysis and testing of materials, quality assurance and improvement for hospitals and clinics, and environmental control of illness and injuries.

The Health Delivery Systems Program activities include maternal and child health care, medical care, and community-based public health care delivery systems. Objectives within this program include protection of the public from inappropriate or substandard health care, and cost containment of medical care.

The third program is Health Support Services. This program encompasses policy direction and leadership for the state on public health issues and a centralized management, administrative and information system for the department. Activities include the Office of Health Facility Complaints and Vital Records, which maintains birth and death certificates and other demographic information.

In fiscal year 1986, the department collected \$47.5 million in receipts. The major sources of these funds included \$37.3 million in federal grants, \$7.6 million in service charges, and \$2.4 million in occupational license and permit receipts. The department also received a state appropriation of \$28,498,000 in 1986.

Expenses of the department during fiscal year 1986 totalled \$72.4 million, allocated as follows:

Grants and Aids	\$43,075,925
Personal Services	21,751,787
Expense and Contractual Services	6,007,018
Supplies	1,180,142
Other Expenses	<u>385,128</u>
Total Expenses	<u>\$72,492,139</u>

MINNESOTA DEPARTMENT OF HEALTH

II. CURRENT FINDINGS AND RECOMMENDATIONS

Internal accounting controls over receipts collected at the Minnesota Department of Health (MDH) need to be improved.

MDH collected receipts from service charges and occupational licensing associated with its regulatory responsibilities, totaling over \$3 million in fiscal year 1986. Currently, MDH does not have a central cashier to deposit the many checks collected through the licensing process. The department has a cash receipt function which involves at least 14 sections and employees in the processing of license fees and miscellaneous receipts.

Highly decentralized cash collection procedures potentially increase internal accounting control problems. To address the following weaknesses, the department needs to consider establishing a central cashier. The function of the central cashier would be to receive and deposit all cash or checks, and to prepare a listing of receipts to be distributed to the appropriate divisions with the corresponding documentation. A central cashier could reduce the number of employees required to process receipts and strengthen controls by restricting access to receipts from division employees who verify the number of licenses issued and other receipt records to receipts deposited. MDH can correct existing problems without establishing a central cashier, but we believe it would be the most efficient way.

Presently, money processed in the Survey and Compliance Section, Plumbing Unit, and Vital Records Division is not separated from the applications until application processing has been initiated. Also, checks are not always restrictively endorsed at the earliest opportunity. Such procedures increase the possibility for loss or theft, since access is not restricted to as few individuals as possible and since the same employee handles receipts and processes applications. These sections need to re-assign job responsibilities in order to ensure an adequate separation of duties.

There is also an inadequate separation of duties in the Central Licensing Unit where the same individual is responsible for depositing food, beverage, and lodging receipts and reconciling deposits to statewide accounting (SWA) system receipt reports. A similar procedure is followed by the Plumbing Unit. To be an effective control, someone independent of the deposit process needs to perform these reconciliations. For example, an employee in the Hotel, Restaurant and Resort Unit could reconcile food, beverage, and lodging receipts processed by the Central Licensing Unit to deposit reports and the number of licenses and/or renewals issued.

Present procedures also delay the deposit of funds. Minn. Stat. Section 16A.275 requires that receipts be deposited daily or when they aggregate \$250, unless the agency has received a waiver from the Department of Finance. The following schedule highlights the lack of timely depositing at the Minnesota Department of Health:

MINNESOTA DEPARTMENT OF HEALTH

<u>Function</u>	<u>Testing Results</u>
Central Licensing Unit	11 of 15 Nursing Board renewal deposits were not made timely. Deposits were approximately two weeks late; one deposit of \$11,984 was 28 days late. In part, the delay may be caused because the Nursing Board staff review continuing education requirements before deposit.
Survey and Compliance Section	9 of 15 transactions tested were not deposited promptly.
Vital Records Division	10 of 15 receipt transactions tested were 5-6 days late in being deposited. Deposits averaged between \$500 and \$1,000.

RECOMMENDATIONS:

1. The duties in all sections that process receipts should be adequately separated, so that the custody of receipts is apart from application processing. Someone independent of receipt processing should reconcile receipt records to deposits.
2. Receipts should be deposited promptly in accordance with Minn. Stat. Section 16A.275.

The Disease Prevention and Health Promotion Division needs documentation to support the payroll costs of employees who are paid from more than one funding source.

MDH policy and procedure number A.F.-9.0 requires employees whose activities are eligible for multiple funding to conduct time studies regularly to determine the number of hours allocated to various federal programs. This policy and procedure was established in January 1986 to comply with the U.S. OMB Circular A-87 requirement that amounts charged to grant programs for personal services be based on payrolls documented by time and attendance or equivalent records. Such records could include additional information on the employees biweekly time reports, periodic time studies, or detailed quarterly evaluation reports.

Department procedures require that the activity managers identify the employees who are to complete the time studies. They also require that Financial Management staff verify that all necessary employees are included in the time studies. However, the Disease Prevention and Health Promotion Division has not submitted the required time studies since June 1986. This division incurred payroll costs of \$2.5 million in fiscal year 1986, of which at least \$1.2 million was charged to the Federal Fund. In the time studies the division had submitted prior to June 1986, approximately 15 employees were included.

MINNESOTA DEPARTMENT OF HEALTH

Without adequate records to support payroll costs of employees whose salaries are charged to more than one funding source, the Division of Disease Prevention and Health Promotion is not in compliance with requirements of the federal government or the Minnesota Department of Health.

RECOMMENDATION:

3. The Financial Management Section should ensure that all divisions, including the Division of Disease Prevention and Health Promotion, complete adequate payroll documentation for all employees eligible for multiple funding.

The detail transaction tapes of licenses and renewals generated from the statewide licensing system are not retained.

The Minnesota Department of Health issues licenses and renewal certificates as part of its regulatory responsibilities to protect the public health. The Central Licensing Unit processed approximately 75,000 license and renewal certificates for five health related licensing boards and two units in the Minnesota Department of Health during fiscal year 1986. The licenses and renewal certificates are generated from the statewide licensing system which is part of the Department of Administration. A record of the licenses issued is available on magnetic tape, but the Department of Administration does not retain copies of these files. These computer tapes are the only comprehensive record of licenses and renewals issued through the Central Licensing Unit. The department may be able to use this information to reconcile total licenses and renewals issued to receipts collected, or for other detailed analysis of license activity.

Minn. Stat. Section 138.17 provides for the retention and administration of government records, which includes computer tapes. The Department of Administration could be requested to retain copies of the licensing computer tapes or the Minnesota Department of Health could retain copies for the required period. If the department does not believe it is necessary or cost beneficial to retain copies of this data, it needs to include them on a records retention schedule as approved by the records disposition panel.

RECOMMENDATION:

4. MDH should comply with Minn. Stat. Section 138.17 by including the statewide licensing magnetic tapes on its record retention schedule.



minnesota department of health

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August 20, 1987

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

Dear Mr. Nobles:

We have received your draft of the audit report concerning the Minnesota Department of Health and met with your staff regarding the audit. We offer the following in response to your recommendations.

Recommendation

The duties in all sections that process receipts should be adequately separated, so that the custody of receipts is apart from application processing. Someone independent of receipt processing should reconcile receipt records to deposits.

Response

Staff from the Financial Management Section will review the operations of each of the sections that process receipts and make recommendations to Division Directors on how to attain adequate separation of duties. The separation of duties includes custody of receipts, application processing, and reconciling receipts to Statewide Accounting. Simultaneously, information will be gathered, from each section that processes receipts, concerning the need to establish a centralized cashier function within the Department. A report will be prepared for the Assistant Commissioner of Administration by March 1, 1988.

Recommendation

Receipts should be deposited promptly in accordance with Minnesota Statute Section 16A.275.

Response

The Financial Management Section has instructed all activities that process receipts to deposit in a timely manner. Deposits will be monitored for continued adherence.

Recommendation implemented.

Recommendation

The Financial Management Section should ensure that all divisions, including the Division of Disease Prevention and Health Promotion, complete adequate payroll documentation for all employees eligible for multiple funding.

Response

Staff from the Section of Financial Management and Division of Disease Prevention and Health Promotion met in early August and agreed upon the appropriate payroll documentation needed and when it would be completed.

Recommendation implemented.

Recommendation

Minnesota Department of Health should comply with Minnesota Statute Section 138.17 by including the statewide licensing magnetic tapes on its records retention schedule.

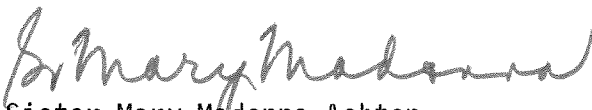
Response

The Director of the State Center of Health Statistics has been instructed to revise the records retention schedule to include this item.

Recommendation implemented.

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

Sincerely yours,



Sister Mary Madonna Ashton
Commissioner of Health

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