MINNESOTA DEPARTMENT OF HEALTH
FINANCIAL AUDIT
FOR THE THREE YEARS ENDED JUNE 30, 1989

FEBRUARY 1990

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

90-9

Veterans Service Building, Saint Paul, Minnesota 55155 • 612/296-4708

SUMMARY

State of Minnesota
Office of the Legislative Auditor
Veterans Service Building • St. Paul, MN 55155
612/296-4708

MINNESOTA DEPARTMENT OF HEALTH

FINANCIAL AUDIT
JULY 1, 1986 - JUNE 30, 1989

Public Release Date: February 16, 1990 No. 90-9

OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: Cash receipts, payroll, distribution of grant funds, and cash disbursements.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

CONCLUSIONS:

- Internal controls over the processing of receipts were found to be materially weak.
- One division needs documentation to support the payroll costs of employees who are paid from more than one funding source.

Contact the Financial Audit Division for additional information.
(612) 296-1730

STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
VETERANS SERVICE BUILDING, ST. PAUL, MN 55155 • 612/296-4708
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator John E. Brandl, Chairman
Legislative Audit Commission

Members of the Legislative Audit Commission

Sister Mary Madonna Ashton, Commissioner
Minnesota Department of Health

Audit Scope

We have conducted a financial related audit of the Minnesota Department of Health as of and for the three years ended June 30, 1989. We have issued separate management letters dated January 11, 1988 and November 21, 1988, as part of our Statewide Financial and Single Audit work in the department for fiscal years ended 1987 and 1988.

Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the Minnesota Department of Health, as discussed in the Introduction. We have also made a study and evaluation of the internal control structure of the Minnesota Department of Health in effect at June 30, 1989.

We conducted our audit in accordance with generally accepted government auditing standards, including Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial activities attributable to the transaction of the Minnesota Department of Health are free of material misstatements.

As part of our study and evaluation of the internal control structure, we performed tests of the Minnesota Department of Health's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Management Responsibilities

The management of the Minnesota Department of Health is responsible for establishing and maintaining an internal control structure. This responsibility includes compliance with applicable laws, regulations, contracts, and grants. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- assets are safeguarded against loss from unauthorized use or disposition;

- transactions are executed in accordance with applicable legal and regulatory provisions, as well as management's authorization; and

- transactions are recorded properly on the statewide accounting system in accordance with Department of Finance policies and procedures.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Internal Control Structure

For purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- cash receipts,
- payroll,
- distribution of grant funds:
  - -- Community Health Service (General Fund)
  - -- Special Supplemental Food Program for Women, Infants, and Children (CFDA #10.557)
  - -- Acquired Immunity Deficiency Syndrome (CFDA #13.118 for FY 1989)
  - -- Maternal and Child Health Block Grant (CFDA #13.994)
  - -- Microbiology and Infectious Diseases Research (CFDA #13.856 for FY 1989)
  - -- Health Program for Refugees (CFDA #13.987 for FY 1989)
- administrative disbursements.

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. We did not evaluate internal controls or test any transactions relating to the administrative disbursements of the Department of Health at any of its locations.

Conclusions

Our study and evaluation disclosed the conditions discussed in findings 1 and 2 involving the internal control structure of the Minnesota Department of Health. We consider these conditions to be reportable conditions under

standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial activities being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We believe the reportable condition described in finding 1 is a material weakness.

The results of our tests indicate that, except for the issues involving the indirect cost transfers discussed in prior management letters, with respect to the items tested, the Minnesota Department of Health complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, nothing came to our attention that caused us to believe that the Minnesota Department of Health had not complied, in all material respects, with those provisions.

This report is intended for the information of the Legislative Audit Commission and management of the Minnesota Department of Health. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 16, 1990.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

END OF FIELDWORK: December 15, 1989
REPORT SIGNED ON: February 13, 1990

MINNESOTA DEPARTMENT OF HEALTH

TABLE OF CONTENTS

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
Connie O'Brien, CPA	Auditor-in-Charge
Susan Rumpca	Auditor

EXIT CONFERENCE

The findings and recommendations in this report were discussed with the following staff of the Minnesota Department of Health on December 28, 1989:

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

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 850 employees to administer its programs. Sister Mary Madonna Ashton is the Commissioner of the department.

The department administers programs to protect the public health through three bureaus. A major purpose of the Bureau of Health Protection is to monitor, control, and ultimately reduce the occurrence of both chronic and infectious disease. Activities within this bureau include routing investigation of infectious disease outbreaks, examining the relationship between environmental exposure to toxic substances and the occurrence of disease, protecting Minnesotans from health hazards in the environment, protecting the public against unnecessary or unsafe exposure to radiation, and enforcing the Minnesota Clean Indoor Air Act. MDH also provides technical support to other laboratories in the state.

The Bureau of Health Delivery Systems' divisions include maternal and child health, health resources, health system development, and community health services. Objectives within this bureau include safeguarding the quality of health care in Minnesota, providing consultation and technical services to regulated health care providers, and developing recommendations in other areas. Recommendations are made for cost containment of health care, financial and geographic access to care, health care regulation, and the regulation of health-related occupations.

The third bureau is the Bureau of Administration. This bureau encompasses leadership and a centralized management, administrative and information system for the department. Activities include the vital records section which maintains birth and death certificates.

In fiscal year 1989, the department collected $66.6 million in receipts. (Source: *Estimated/Actual Receipts Report* as of June 30, 1989.) The department also received state appropriations of $35.3 million in 1989. (Minn. Laws 1987, Chapter 403, Article I, Section 8.) Disbursements of the department during the fiscal year 1989 totalled $99.1 million. (Source: *Manager's Financial Report* as of September 4, 1989.)

II. CURRENT FINDINGS AND RECOMMENDATIONS

1. Internal controls over receipts collected at the Minnesota Department of Health need to be improved.

The Minnesota Department of Health (MDH) collected receipts from service charges and occupational licensing associated with its regulatory responsibilities, totaling over $4.5 million in fiscal year 1989. The department has a cash receipt function which involves eighteen cashiers located in two buildings. We identified internal control weaknesses at several collection sites.

Highly decentralized cash collection procedures increase the risk of internal control problems. To identify the weaknesses, we tested five collection areas, including the three collecting the most fees. In the three units shown below, we found that processing duties were not adequately separated, that checks were not restrictively endorsed at the time of receipt, that deposits were not compared to statewide accounting (SWA) system reports, and receipts were not deposited promptly.

Presently, money processed in the food, beverage, and lodging unit is not separated from the new applications until application processing has been initiated. Also, checks are not 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.

An inadequate separation of duties also exists in the asbestos unit where the same person is responsible for depositing receipts and issuing licenses. A similar process is followed in the food, beverage, and lodging unit and mobile home park unit. To be an effective control, someone independent of the deposit process needs to issue licenses. Furthermore, the asbestos unit is not comparing deposits to statewide accounting system reports.

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. We tested deposits in the same five areas, and found problems in three units. The following schedule highlights the lack of timely depositing at the Minnesota Department of Health:

Unit	Testing Results
asbestos	40 of 54 deposits tested were not made timely.
food, beverage, and lodging	9 of 15 deposits tested were not made timely.
mobile home parks	11 of 14 deposits tested were not made timely.

To address the weaknesses, we believe the department needs to consider establishing some central cashiers. 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 records to receipts deposited. MDH can correct existing problems without establishing a central cashier. However, we believe central cashiers would be the most effective way. Some divisions of the department currently are moving to a new location, so now seems to be a good time to reevaluate the process.

RECOMMENDATIONS

- **Minnesota Department of Health should correct the internal control weaknesses in the receipts process. The duties in all sections that process receipts should be adequately separated, so that the custody of receipts is apart from license processing. Someone independent of receipt processing should reconcile receipt records to deposits. The department should consider establishing central cashiers to replace the 18 collection sites.**

- **Receipts should be deposited promptly in accordance with Minn. Stat. Section 16A.275.**

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

OMB Circular A-87 and MDH policy and procedure number A.F.O-9.0 require employees whose activities are eligible for multiple funding to conduct time studies regularly to determine the number of hours allocated to various federal programs. 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 Division staff verify that all necessary employees are included in the time studies. All divisions and districts of the department prepare timesheets to show that their time was allocated to specific programs. Some districts located outside the metropolitan area complete time studies to show allocations to various programs. However, the Disease Prevention and Control Division has not submitted the required time studies since January 1989. The federal programs affected by the time studies are Tuberculosis Control Programs (CFDA 13.116) and Health Programs for Refugees (CFDA 13.987).

RECOMMENDATIONS

- Payroll costs of employees who are paid from more than one funding source should be adequately documented, especially in the Disease Prevention and Control Division. Appropriate transfers of money should be made when necessary to equalize payroll costs for all programs.

- Minnesota Department of Health should identify employees who are to complete payroll time studies, including those in the Division of Disease Prevention and Control.

minnesota department of health
717 s.e. delaware st. p.o. box 9441 minneapolis 55440
(612) 623-5000

February 13, 1990

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Veterans Service Building
20 West 12th Street
St. Paul, MN 55155

Dear Mr. Nobles:

This is in response to the draft audit report for the Minnesota Department of Health completed by your office for State Fiscal Year 1989.

Recommendation: Minnesota Department of Health should correct the internal control weaknesses in the receipts process. The duties in all sections that process receipts should be adequately separated, so that the custody of receipts is apart from license processing. Someone independent of receipt processing should reconcile receipt records to deposits. The department should consider establishing central cashiers to replace the 18 collection sites.

Receipts should be deposited promptly in accordance with Minn. Stat. Section 16A.275.

Response: The Department has taken several steps to address this issue. First, a draft policy for depositing receipts was prepared and distributed to all cashiers and their supervisors. Secondly, each cashier reviewed with the Director of Financial Management any problem areas in complying with the policy. Thirdly, Assistant Commissioners Michael Finn and Thomas Maloy met with Environmental Health staff to discuss the problem areas, and a correction plan. During this discussion and further discussion with Legislative Auditor's staff, it was determined that the problem with Mobile Home Parks was in past years, and that the problem has been corrected.

The Environmental Health Division together with the Director of Financial Management will be establishing a corrective action plan for the Asbestos Unit cashier and the Food, Beverage and Lodging Unit cashier in the next month. In addition, within the month, the Environmental Health Division will be addressing the issue of a centralized cashier as part of their move.

Recommendation: Payroll costs of employees who are paid from more than one funding source should be adequately documented, especially in the Disease Prevention and Control Division. Appropriate transfers of money should be made when necessary to equalize payroll costs for all programs.

Minnesota Department of Health should identify employees who are to complete payroll time studies, including those in the Division of Disease Prevention and Control.

Response: Staff from both the Division of Disease Prevention and Control and the Section of Financial Management were reminded of the policy. Time studies have been completed through December, 1989.

Sincerely yours,

S. Mary Madonna

Sister Mary Madonna Ashton
Commissioner of Health

SMMA:DH:dmt