# MINNESOTA DEPARTMENT OF HEALTH
# FINANCIAL AUDIT
# FOR THE YEAR ENDED JUNE 30, 1991

**FEBRUARY 1992**


Financial Audit Division
Office of the Legislative Auditor
State of Minnesota



**92-12**



Centennial Office Building, Saint Paul, Minnesota 55155 ● 612/296-4708

# SUMMARY

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

# MINNESOTA DEPARTMENT OF HEALTH

## FINANCIAL AUDIT
## FOR THE YEAR ENDED JUNE 30, 1991

Public Release Date: February 21, 1992 No. 92-12

## OBJECTIVES:

- EVALUATE INTERNAL CONTROL STRUCTURE: cash receipts; payroll; Special Supplemental Food Program for Women, Infants, and Children; Maternal and Child Health Block Grant; and Emergency Medical Services Program.
- TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.

## CONCLUSIONS:

We found one area where the internal control structure needed improvement:

- The department did not control some receipts properly.

We found two areas where the department had not complied with finance-related legal provisions:

- The department did not prepare a timely indirect cost plan for fiscal year 1991.
- The department did not monitor the resolution of subrecipient audit findings under the Single Audit Act.

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

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

Representative Ann Rest, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Marlene Marschall, Commissioner
Minnesota Department of Health

## Audit Scope

We have conducted a financial related audit of the Minnesota Department of Health for the year ended June 30, 1991. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of 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, 1991.

We conducted our audit in accordance with generally accepted government auditing standards. 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 federal grants:
  - Special Supplemental Food Program for Women, Infants, and Children (CFDA #10.557)
  - Maternal and Child Health Block Grant (CFDA #93.994)
- Emergency Medical Services Program.

For the grant funds, we obtained an understanding of the design of relevant policies and procedures and procedures and whether they have been placed in operation, and we assessed control risk. We also did not evaluate controls or test transactions for cash receipts, except for follow-up of prior audit findings, at any of its locations.

## Conclusions

Our study and evaluation disclosed the condition discussed in finding 3 involving the internal control structure of the Minnesota Department of Health. We consider this condition to be a reportable condition 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 do not believe the reportable condition described is a material weakness.

We also noted other matters involving the internal control structure that we reported to the management of the Minnesota Department of Health at the exit conference held on November 27, 1991.

The results of our tests indicate that, except for the issues discussed in findings 1-2, 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 21, 1992.

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

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: November 15, 1991

Report Signed On: February 14, 1992

# 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 |
| Sonya Hill | Auditor-in-Charge |
| Amy Jorgenson | Auditor |
| Susan Rumpca, CPA | Auditor |

## Exit Conference

The findings and recommendations in this report were discussed with the following staff of the Minnesota Department of Health on November 27, 1991:

| | |
|---|---|
| Marlene Marschall | Commissioner |
| Mary Jo O'Brien | Deputy Commissioner |
| Thomas Maloy | Assistant Commissioner, Bureau of Administration |
| David Hovet | Director of Financial Management |
| Barbara Nerness | Assistant Commissioner, Bureau of Health Delivery Systems |
| Wayne Carlson | Acting Director, Community Health Services Division |

# Introduction

The Minnesota Department of Health is responsible to protect, maintain, and improve the health of the citizens of Minnesota. To achieve this goal, the department performs the following functions: identifies and describes health problems, establishes and enforces health standards, provides education and technical assistance, and collects and analyzes health and vital data. Marlene Marschall is the current commissioner of the department.

The department administers its programs through three bureaus: Health Delivery Systems, Health Protection, and Health Resources and Managed Care Services. Each bureau has a number of activities.

The activities of the Health Delivery System Bureau include maternal and child health and community health services. The main objective of the bureau is to ensure that state residents have access to quality health care without financial, geographic or cultural barriers. The Emergency Medical Services Section is part of this bureau.

The Health Protection Bureau's activities include disease prevention and control, environmental health, health promotion and education, and public health laboratories. This bureau exists to protect state citizens from public health hazards, to prevent and control acute and chronic disease, and to promote positive health behaviors.

The Health Resources and Managed Care Services Bureau regulates health maintenance organizations and health care facilities to assure the delivery of quality medical care and to assure the health, safety and well-being of recipients of health care services.

The Bureau of Administration provides the department's general support and health information. It gives policy direction and leadership, and also includes a financial management, administrative, and information system.

Following is a summary of the department's fiscal year 1991 expenditures, revenues, and appropriations:

Expenditures

| | |
|---|---|
| Women, Infants, and Children Supplemental Food Program | $ 38,096,950 |
| Maternal and Child Health Block Grant | 5,775,646 |
| Other Federal Program Expenditures | 12,747,607 |
| Payroll | 29,833,035 |
| Emergency Medical Services Program | 2,213,126 |
| Other Expenditures | 33,369,892 |
| Total Expenditures | $122,036,276 |

## Minnesota Department of Health

Revenue and Appropriations

| | |
|---|---|
| Federal Grants | $46,281,401 |
| Service Charges | 5,238,544 |
| Permits, Fees, and Licenses | 4,189,448 |
| Miscellaneous Receipts | 608,995 |
| Other Reimbursements | 26,486,267 |
| Total Revenue | $83,714,571 |
| State Appropriations | $43,425,000 |

Sources: Statewide Accounting System Manager's Financial Report as of September 3, 1991, Estimated/Actual Receipts Report as of August 31, 1991, Laws of Minnesota 1989, Chapter 282, Article 1 Section 9, and Laws of Minnesota 1990, Chapter 568, Article 1, Section 7.

# Current Findings and Recommendations

**1. The Minnesota Department of Health did not prepare a timely indirect cost plan for fiscal year 1991.**

The department did not prepare an indirect cost allocation plan for fiscal year 1991 as required under federal guidelines. The Office of Management and Budget outlined general requirements regarding indirect costs in the September 1990 compliance supplement. Each state was to submit an indirect cost proposal to its cognizant agency. The plan is to be filed by December 31 of the year preceding the fiscal year covered by the indirect cost plan. The proposal was to show the basis for allocating indirect costs to federal programs. The agency needed this plan to receive reimbursement for indirect costs. In fiscal year 1991, based on the rate approved for in prior years, the department drew down indirect cost monies totalling $4,094,865.

Not preparing an indirect cost plan is a violation of federal requirements as well as a violation of Department of Finance policy and procedure 06:03:22. The Department of Finance must approve an agency's indirect cost proposal before submitting it to the federal cognizant agency for their approval. If an agency does not submit an indirect cost plan, the federal government can disallow indirect costs charged to federal programs during that year. The federal program managers had threatened to disallow indirect costs because a plan had not been filed. The plan for fiscal year 1991 was finally submitted in July 1991 along with the fiscal year 1992 indirect cost plan. There were no repercussions from the federal government. Plans had been submitted in previous years when required.

*Recommendation*

- *The Department of Health should prepare an indirect cost plan each year under federal and state requirements.*

**2. The Minnesota Department of Health is not monitoring the resolution of subrecipient audit findings under the Single Audit Act.**

The department has not resolved issues of grant noncompliance related to its 1988 subrecipients as outlined in the "Report of the State Auditor on Federally Assisted Programs of Subrecipients of the State of Minnesota for the Year Ended June 30, 1989." This report lists six subrecipients, who received $3,288,295 in grant revenue and who had instances of noncompliances in operational procedures. However, there were no questioned costs related to these noncompliance findings. Most of these findings related to the Maternal and Child Health Program (CFDA #93.110) and the Special Supplemental Food Program for Women, Infants, and Children (CFDA #10.557).

The department is responsible for following up on grant noncompliance issues relating to its subrecipients. The Single Audit Act of 1984 and the U.S. Office of Management and Budget Circular A-128 require states to resolve issues within six months of receipt of sub-recipient audit reports.

*Recommendation*

- *The department should resolve in a timely manner all subrecipient audit findings in accordance with federal regulations.*

**3. PRIOR FINDING PARTIALLY IMPLEMENTED. The Minnesota Department of Health does not control some receipts properly.**

The department needs to improve controls over receipts in two of the three units we tested. First, the water supply and well management unit does not deposit license and permit receipts promptly. In addition, the environmental field services unit does not reconcile the checks received with the checks deposited. The department collected receipts from service charges and occupational licensing associated with its regulatory responsibilities. The department has a cash receipt function which involves eighteen cashier units located in three buildings.

The water supply and well management unit did not promptly deposit 16 of 22 sample items tested. The unit did not deposit some checks until one week after the day of receipt. Minn. Stat. Section 16A.275 requires that agencies deposit receipts daily or when the receipts aggregate $250, unless the agency has received a waiver from the Department of Finance. Since the previous audit, we noted an improvement in prompt depositing procedures in the asbestos unit and the food, beverage, and lodging unit.

The second weakness involves the environmental field services unit. This unit did not reconcile the checks received with the checks deposited. One person is responsible for completing the mail listing and depositing the receipts. Other employees process the applications and issue licenses. However, no one compares the checks received to the checks deposited to determine if the unit deposited all checks. By performing an independent comparison, the unit would be sure that they have deposited all checks.

*Recommendations*

- *The department should deposit receipts promptly in accordance with Minn. Stat. Section 16A.275, including those in the water supply and well management unit.*

- *The environmental field services unit should reconcile the checks received to the checks deposited.*

minnesota department of health
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February 10, 1992

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

Dear Mr. Nobles:

This is prepared in response to the draft audit report for the Minnesota Department of Health completed by your office for state fiscal year 1991.

Recommendation

The Department of Health should prepare an indirect cost plan each year under federal and state requirements.

Response

The Department has prepared and submitted an indirect cost plan for 1991 to the Department of Finance and the Federal Department of Health and Human Services. The Department received approval on this plan on December 4, 1990. The Department has also submitted and received approval on its 1992 plan and is currently working on the plan for 1993.

Recommendation

The Department should resolve in a timely manner all subrecipient audit findings in accordance with federal regulations.

Response

The Department currently reviews all audit findings of subrecipients to determine the nature and extent of any findings. Findings that deal with questioned costs or significant operational problems are followed up on and resolutions are required. The Department will initiate a procedure by April 1, 1992 to follow-up on resolution of all noncompliance findings.

Recommendation

The Department should deposit receipts promptly in accordance with Minn. Stat. Section 16A.275, including those in the water supply and well management unit.

Response

The Well Management Program experienced a significant expansion in 1990. As a result, we were unable to judge precisely the workload level. We now have the experience to more closely estimate the workload and adjust staffing to meet the demands.

Recommendation

The environmental field services unit should reconcile the checks received to the checks deposited.

Response

The Department will either stagger the license renewal system, assign additional staff to meet peak workload times, or develop computer capacity to edit the deposit system so that the daily log is reconciled to the checks deposited.

Sincerely yours,

Marlene E. Marschall
Commissioner of Health

MEM:DH:dmt