

**MINNESOTA DEPARTMENT OF HEALTH  
FINANCIAL AUDIT  
FOR THE YEAR ENDED JUNE 30, 1992**

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**APRIL 1993**

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Financial Audit Division  
Office of the Legislative Auditor  
State of Minnesota

**93-14**



# **MINNESOTA DEPARTMENT OF HEALTH**

## **FINANCIAL AUDIT FOR THE YEAR ENDED JUNE 30, 1992**

Public Release Date: April 8, 1993

No. 93-14

### **OBJECTIVES:**

- **EVALUATE INTERNAL CONTROL STRUCTURE:** Women, Infants, and Children Supplemental Food Program, Maternal and Child Health Block Grant, State Health Care Providers Survey and Certification, Community Health Service subsidy, WIC rebate, and payroll.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

### **CONCLUSIONS:**

We found the internal control structure to be effective.

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

- The department did not pay its statewide indirect costs timely.
- 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  
**OFFICE OF THE LEGISLATIVE AUDITOR**  
CENTENNIAL BUILDING, ST. PAUL, MN 55155 • 612/296-4708  
JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator Phil Riveness, 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 selected financial programs of the Minnesota Department of Health for the year ended June 30, 1992. 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 for these financial activities of the Minnesota Department of Health in effect at June 30, 1992.

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 into various categories. For all of the internal control structure categories listed below, 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.

- distribution of federal grants:
  - Special Supplemental Food Program for Women, Infants, and Children (WIC) (CFDA # 10.557)
  - Maternal and Child Health Block Grant (CFDA # 93.994)
  - State Survey and Certification of Health Care Providers and Suppliers (CFDA # 93.777)
- payroll,
- Community Health Services Subsidy
- federal revenue, and
- WIC rebate.

We also identified two other categories of significant internal control structures: Preventive Health Services Block Grant and laboratory reimbursement expenditures. However, we did not assess control risk for these two areas.

### **Conclusions**

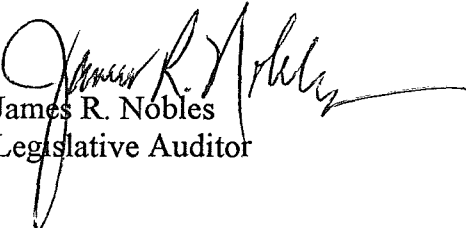
Our study and evaluation of selected financial programs of the Minnesota Department of Health disclosed no conditions that did not meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the financial transactions of the Minnesota Department of Health.

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
Ms. Marlene Marschall, Commissioner  
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The results of our tests indicate that, except for the issues discussed in findings 1 and 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 April 8, 1993.

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 6, 1992

Report Signed On: April 1, 1993





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### **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, CPA	Auditor-in-Charge
Joan Haskin, CPA	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 December 7, 1992:

Marlene Marschall	Commissioner
Thomas Maloy	Assistant Commissioner, Bureau of Administration
David Hovet	Director of Financial Management



# **Minnesota Department of Health**

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## **Introduction**

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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 programs to protect the public health through four bureaus: Health Delivery Systems, Health Protection, Health Care Resources and Systems, and Administration. Each bureau has a number of activities.

The activities of the Bureau of Health Delivery Systems include maternal and child health, community health services, and health promotion and education. The main objective of the bureau is to ensure that all citizens of the state have access to quality health care without financial, geographic or cultural barriers. In addition, the bureau attempts to promote positive health behaviors.

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

The Bureau of Health Care Resources and Systems 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 includes policy direction and leadership, financial management, vital records, information systems, and technology activities.

## Minnesota Department of Health

Following is a summary of the department's fiscal year 1992 expenditures, revenues, and appropriations:

### Expenditures

Women, Infants, and Children (WIC) Supplemental Food Program	\$45,559,959
Maternal and Child Health Block Grant	9,092,052
State Health Care Providers Survey and Certification	5,668,960
Other Federal Program Expenditures	4,757,595
Payroll	39,938,621
Community Health Service Subsidy	14,112,000
Other Expenditures	<u>17,329,988</u>
Total Expenditures	<u>\$136,459,175</u>

### Revenues

#### Federal Grants:

Women, Infants, and Children (WIC) Supplemental Food Program	33,862,936
Maternal and Child Health Block Grant	8,515,140
State Health Care Providers Survey and Certification	3,496,776
Other Federal Program Revenue	<u>10,396,063</u>
Total Federal Grants	<u>\$56,270,915</u>
WIC Rebate	9,925,512
Miscellaneous Revenue	<u>25,994,624</u>
Total Revenue	<u>\$92,191,051</u>

State Appropriations	<u>\$48,648,000</u>
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Sources: Statewide Accounting System Manager's Financial Report as of September 5, 1992, Estimated/Actual Receipts Report as of September 6, 1992, Laws of Minnesota 1991, Chapter 292, Article 1, Section 9, and Laws of Minnesota 1992, Chapter 513, Article 5, Section 7.

## Current Findings and Recommendations

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**1. The Department of Health did not pay its statewide indirect costs timely.**

The department is not in compliance with Department of Finance policies and procedures for payment of statewide indirect costs. The agency did not make all of the required periodic reimbursements of 1992 statewide indirect costs. The department only made two estimated payments of \$30,000 to the Department of Finance on November 5, 1991 and January 21, 1992. Department of Finance policy and procedure 06:03:22 requires periodic (at least quarterly) reimbursement of statewide indirect costs.

In addition, the department did not make timely payment of its final 1991 statewide indirect costs. Department of Finance policy and procedure 06:03:22 requires agencies to pay the final statewide indirect cost reimbursement within 30 days after the fiscal year closing. The agency made its final 1991 payment of \$56,767 on January 27, 1992, nearly five months late.

### *Recommendations*

- *The department should make quarterly reimbursements of statewide indirect costs, as required by Finance policies.*
- *The department should pay the final reimbursement of statewide indirect costs within 30 days after the fiscal year closing.*

**2. PRIOR FINDING PARTIALLY IMPLEMENTED. The Minnesota Department of Health has not monitored the resolution of some subrecipient audit findings under the Single Audit Act.**

The department has not resolved some issues of grant noncompliance at the subrecipient level. The "Report of the State Auditor on Federally Assisted Programs of Subrecipients of the State of Minnesota" shows findings and grant noncompliance associated with federal programs at the subrecipient level. The reports for the years ended June 30, 1989 and 1990 showed activity for calendar years 1988 and 1989, respectively. The reports identified instances of noncompliance with operational procedures for six subrecipients who received \$3,288,295 in grant revenue during 1988, and fourteen subrecipients who received \$4,839,469 during 1989. The reports did not identify any questioned costs related to these noncompliance findings. Most of the findings related to the Maternal and Child Health Program (CFDA # 93.994) and the Special Supplemental Food Program for Women, Infants, and Children (CFDA # 10.557).

## Minnesota Department of Health

During fiscal year 1991, the department did not contact any subrecipients regarding grant noncompliance issues. The department began contacting subrecipients during fiscal year 1992, but has not completed the process. The department resolved the one instance of questioned costs for 1990 activity identified in the 1991 report.

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 subrecipient audit findings in accordance with federal regulations.*



**Minnesota Department of Health**

717 Delaware Street Southeast

P.O. Box 9441

Minneapolis, MN 55440-9441

(612) 623-5000

March 19, 1993

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

Dear Mr. Nobles:

This letter is prepared in response to the draft audit report for the Minnesota Department of Health completed by your office for state fiscal 1992.

Recommendation

The department should make quarterly reimbursements of statewide indirect costs, as required by Finance policies.

Response

The United States Treasury requires the department to draw cash for indirect cost payments based upon actual earnings not what is budgeted. This requirement creates an uneven cash flow in the indirect cost account. The department manages this uneven cash flow by processing payment to vendors, contractors, and employees and finally the statewide indirect cost payment. Often, this means that the quarterly indirect cost payments are delayed until a sufficient cash flow has been established in the indirect cost account. The department will again review this process with the Federal Treasury and the Department of Finance for any refinements.

Recommendation

The department should pay the final reimbursement of statewide indirect costs within 30 days after the fiscal year closing.

Response

As indicated above, the department indirect costs are collected based upon earnings. Subcontracts are a major expenditure item on most federal grants and usually funded on the federal fiscal year. Quarterly expenditure reporting is used for the subcontracts and does not permit the department to meet the 30 days requirement for final reimbursement of indirect cost. The department will continue to make every effort in closing out the federal grants as soon as

Mr. Nobles

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March 19, 1993

possible after the end of the grant year in order to calculate the earned indirect cost.

Recommendation

The department should resolve audit findings in accordance with federal regulations.

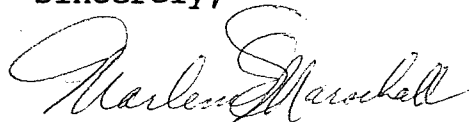
Response

The department continues to work on the implementation of its policy and procedure on Single Audit follow-up. However, the department staff concentrates follow-up on findings with financial consequence. All findings with a financial consequence have been addressed and procedural findings have been reviewed through 1989.

I would like to extend a sincere thank you to your staff for their assistance and professional manner in which they conducted this audit.

If you should have any questions about the department's response, please contact David Hovet of our Financial Management staff at 623-5072.

Sincerely,



Marlene E. Marschall  
Commissioner of Health

MEM:DH:dmt