

MINNESOTA DEPARTMENT OF HEALTH

PROGRAM SELECTED FOR FISCAL YEAR 1993

STATEWIDE AUDIT

MARCH 1994

Financial Audit Division
Office of the Legislative Auditor
State of Minnesota

94-09

MINNESOTA DEPARTMENT OF HEALTH
PROGRAMS SELECTED
FOR FISCAL YEAR 1993 STATEWIDE AUDIT

Public Release Date: March 11, 1994

No. 94-09

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; and WIC rebate.
- **TEST COMPLIANCE WITH CERTAIN FINANCE-RELATED LEGAL PROVISIONS.**

CONCLUSIONS:

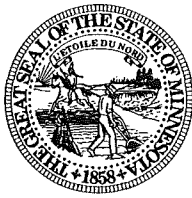
We found the internal control structure to be effective.

We found two areas where the department again 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.
296-1730

FINANCIAL AUDIT DIVISION



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Senator Phil Riveness, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Mary Jo O'Brien, Commissioner
Minnesota Department of Health

Audit Scope

We have audited selected programs of the Department of Health as part of our Statewide Audit of the State of Minnesota's fiscal year 1993 financial statements and Single Audit federal programs. Our audit was limited to only that portion of the State of Minnesota financial activities attributable to the transactions of the Department of Health, as outlined below and as further discussed in the Introduction.

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 selected financial activities of the department are free of material misstatements. In performing our audit of the selected programs, we considered the internal control structure in order to plan our audit, and we performed tests of the department's compliance with certain material provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on the internal control structure or on overall compliance with finance-related legal provisions.

We emphasize that this has not been a complete financial and compliance audit of all programs within the Department of Health. The work conducted in the department is part of our Statewide Audit and federal compliance audit, Single Audit. The Single Audit coverage satisfies the federal government's financial and compliance audit requirements for all federal programs administered by the department during fiscal year 1993.

Internal Control Structure

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

- Federal grant revenues and expenditures:
 - 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)
- WIC Rebate Revenue

For all of the selected 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.

Management Responsibilities

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 made 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, the 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.

Conclusions

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 noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

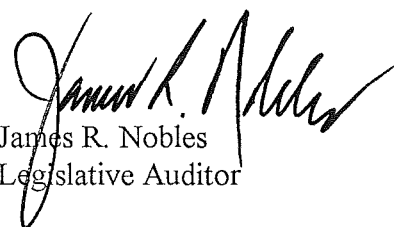
Senator Phil Riveness, Chair
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However, we noted some conditions involving the internal control structure and its operation which we reported to the management of the Department of Health at the exit conference held on December 28, 1993.

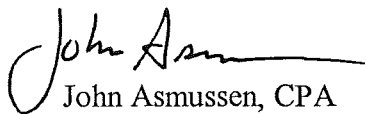
The results of our compliance tests indicate that, except for the issues discussed in findings 1 and 2, with respect to the items tested, the Minnesota Department of Health complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items not tested, 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 March 11, 1994.

We 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: December 17, 1993

Report Signed On: March 7, 1994

Minnesota Department of Health

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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
Amy Jorgenson	Auditor-in-Charge
Geniene Herrlich	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, 1993:

Anne Barry	Deputy Commissioner
David Hovet	Financial Management Director

Minnesota Department of Health

Introduction

The mission of the Minnesota Department of Health is to protect, maintain, and improve the health of the citizens of Minnesota. Some of the activities the departments performs to achieve this goal include conducting public health studies and investigations, collecting and analyzing health and vital data, establishing and enforcing health standards, and advising the Governor and Legislature on matters relating to the public's health. Marlene Marschall was the commissioner from June 1991 to August 31, 1993. Mary Jo O'Brien, the current commissioner, was appointed effective September 1, 1993.

The department administers programs to protect the public health through three bureaus: Health Delivery Systems, Health Protection, and Health Care Resources and Systems. Each bureau is responsible for a number of activities.

The Bureau of Health Delivery Systems' activities 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 that health, safety and well-being of recipients of health care services.

Total expenditures and revenues for the Department of Health for fiscal year 1993 were \$149,324,180 and \$114,229,896, respectively. Our audit included only expenditures and revenues of selected programs for fiscal year 1993 as presented below:

Expenditures

Women, Infants, and Children (WIC) Special Supplemental Food Program (1)	\$50,903,865
Maternal and Child Health Block Grant	9,425,614
State Survey and Certification of Health Care Providers and Suppliers (2)	13,254,837

Minnesota Department of Health

Revenues

Federal Grants:

Women, Infants and Children (WIC) Special Supplemental Food Program	\$40,250,134
Maternal and Child Health Block Grant	8,918,917
State Survey and Certification of Health Care Providers and Suppliers	6,800,946

Other Revenue:

WIC Rebate Revenue	11,031,535
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Sources: Statewide Accounting Systems Manager's Financial Report and Estimated/Actual Receipts Report as of September 3, 1993; Single Audit Schedules of Federal Financial Assistance for the Year Ended June 30, 1993; Receipts by APID reports for fiscal year 1993; and Department of Finance report FINU 8603, Federal Programs Cash Basis Receipts.

- (1) The Women, Infants, and Children expenditures are financed by both WIC federal grant revenue and WIC Rebate revenue.
- (2) The Minnesota Department of Health also receives funding from the Minnesota Department of Human Services for this program. In fiscal year 1993, this funding totaled \$5,779,947 (Source: Estimated/Actual Receipts Report as of September 3, 1993.)

Current Findings and Recommendations

1. PRIOR FINDING PARTIALLY RESOLVED. The Department of Health did not pay its statewide indirect costs timely.

The department did not make timely payments of its final 1992 and 1993 statewide indirect costs. Department of Finance Policy and Procedure 06:03:22 requires agencies to pay final statewide indirect cost reimbursements within 30 days after the fiscal year closing. The agency made its final 1992 payment in February 1993, five months after the deadline. The department made a small estimated final payment for fiscal year 1993, but does not expect to make the full payment until February of 1994.

Recommendation

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

2. PRIOR FINDING PARTIALLY RESOLVED. The 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 or crosscutting findings at the subrecipient level. During fiscal year 1993, the department wrote a new policy for subrecipient audit follow up, but did not fully implement it. The department followed up on only about half of the instances of grant noncompliance with letters to the subgrantees. Most of these 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).

The department also is responsible for following up on findings for some agencies assigned by the Department of Finance. Findings that involve more than one state agency are called crosscutting findings. The department did not have audit reports on file for most of these assigned subrecipients. The Report of the State Auditor on Federally Assisted Programs of Subrecipients of the State of Minnesota for the Year Ended June 30, 1992 shows crosscutting findings for some subgrantees, but the department did not follow up on them.

Under the Single Audit Act and the U.S. Office of Management and Budget Circular A-128, the department is responsible for following up on grant noncompliance issues relating to its subrecipients and crosscutting findings assigned to it.

Recommendation

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



Minnesota Department of Health

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February 28, 1994

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 1993.

Recommendation:

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

Response:

The Department continues to have problems meeting the 30 day after fiscal year closing deadline established by the Department of Finance, because of the number of federal grants that have funding agreements with local agencies. The Department is unable to calculate the final base to which the indirect cost rate is to be applied, because of the outstanding encumbrance related to these agreements. The Department will work with the Department of Finance to either base the final payment on an estimate or obtain a waiver to the provision.

Recommendation:

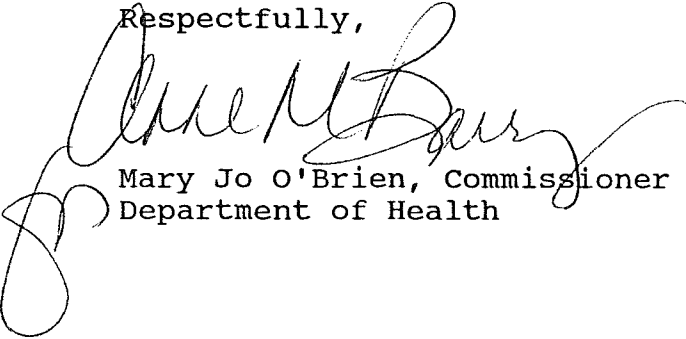
The Department should resolve subrecipient audit findings in accordance with federal regulations.

Response:

The Department continues to follow up on audit findings and recommendations listed in the report of the State Auditor on federally assisted programs of subrecipients of the State of Minnesota for grant noncompliance. The attached summary indicates that all non-resolved grant noncompliance issues

have been followed up with a letter to the agency. However, the Department agrees that follow up on the audit report compliances and those audit reports with cross-cutting findings need improvement. Staff from our Section of Financial Management will work with an internal grants workgroup on streamlining this aspect of our single audit process.

Respectfully,



Mary Jo O'Brien, Commissioner
Department of Health

MINNESOTA DEPARTMENT OF HEALTH AUDIT FINDINGS SUMMARY

GRANT NON-COMPLIANCE ISSUES

REPORT ON FEDERALLY ASSISTED PROGRAMS

NAME OF AGENCY	1989	1990	1991	1992	ACTION
CARLTON, COOK, LAKE, ST. LOUIS CHS	X	RESOLVED	X	RESOLVED	
AIKTIN COUNTY		X	X	X	LETTER
MINNEAPOLIS, CITY OF	X	RESOLVED			
CASS COUNTY			X	X	LETTER
LAKE COUNTY	X	X	X	X	LETTER
QUINN COUNTY		X	RESOLVED		
SEMCAC	X	?			
ST. LOUIS COUNTY (93.994)		X	RESOLVED		
ST. LOUIS COUNTY (93.118)			X	X	RESOLVED
MINNESOTA, UNIVERSITY OF	X	RESOLVED			
STEELE COUNTY		X	X		MOVED TO A CROSSCUTTING FINDING
WADENA COUNTY	X	RESOLVED			
ST. PAUL, CITY OF (10.557)			X	RESOLVED	
ST. PAUL, CITY OF (10.557)				X	OPEN ITEM NEED TO SEE PROCEDURES
ST. PAUL, CITY OF (93.994)				X	OPEN ITEM NEED TO SEE PROCEDURES
WINONA COUNTY				X	RESOLVED-CHECK 1992 AUDIT REPORT