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**Minnesota Department of Health**  
**Programs Selected For**  
**Fiscal Year 1994 Statewide Audit**

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**April 1995**

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**Financial Audit Division**  
**Office of the Legislative Auditor**  
**State of Minnesota**

**95-11**



# SUMMARY

State of Minnesota  
Office of the Legislative Auditor  
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## Minnesota Department of Health

### Programs Selected For Fiscal Year 1994 Statewide Audit

Public Release Date: April 5, 1995

No. 95-11

#### Objectives:

- Review Internal Control Structure: Women, Infants, and Children (WIC) Supplemental Food Program; WIC rebate revenue; and receipts from license fees and penalties.
- Test compliance with certain finance-related legal provisions.

#### Conclusions:

We found four areas where the internal control structure needed improvement:

- The Minnesota Department of Health (MDOH) paid duplicate travel expenses from an original and a resubmitted copy.
- Unauthorized employees had access to the Statewide Accounting System and the Personnel/Payroll System.
- Several MDOH areas do not control receipts adequately.
- MDOH did not record actual payroll costs for one employee.

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

- The department did not pay its invoices promptly.
- The department has not monitored the resolution of subrecipient audit findings under the Single Audit Act.
- The department again did not pay its statewide indirect costs timely.
- Some areas did not always deposit receipts promptly.
- MDOH did not adjust actual payroll costs for one employee, who was split-funded between two federal programs, to actual time worked.

Contact the Financial Audit Division for additional information.

296-1235





STATE OF MINNESOTA  
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JAMES R. NOBLES, LEGISLATIVE AUDITOR

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Senator Phil Riveness, Chair  
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Anne Barry, Acting Commissioner  
Minnesota Department of Health

## **Audit Scope**

We have completed a financial related audit of selected programs of the Minnesota Department of Health for the period July 1, 1993 through June 30, 1994. We emphasize that this has not been a complete audit of all programs within the Minnesota Department of Health, and that our audit was limited to only that portion of the financial operations as outlined below and as further discussed in the Introduction. The work conducted in the department is part of our Statewide Audit of the State of Minnesota's fiscal year 1994 financial statements and Single Audit (federal compliance 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 1994.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we consider the internal control structure in order to plan our audit of the selected programs, and that we perform 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.

## **Internal Control Structure**

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

- Federal grant revenues and expenditures:
  - Special Supplemental Food Program for Women, Infants, and Children, (WIC) (CFDA #10.557)
- WIC Rebate Revenue
- Receipts - license fees and penalties

For 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.

## **Management Responsibilities**

Management of the Minnesota Department of Health is responsible for establishing and maintaining the 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 internal control 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**

Our audit disclosed the conditions discussed in findings 1, 4, 5, and 6 involving the internal control structure of the Minnesota Department of Health. We consider these conditions to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. A reportable condition involves matters coming to our attention that relate 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

Senator Phil Riveness, Chair  
Members of the Legislative Audit Commission  
Ms. Anne Barry, Acting Commissioner  
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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.

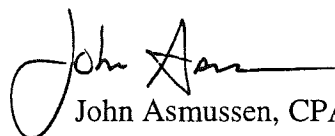
The results of our compliance tests indicate that, except for the issues discussed in findings 1, 2, 3, 5, and 6, with respect to the items tested, the Minnesota Department of Health complied, in all material respects, with the provisions referred to in the audit scope paragraphs. With respect to items 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.

We also noted other conditions involving the internal control structure and its operations, and a compliance area, which we reported to the management of the Minnesota Department of Health at the exit conference held on December 28, 1994.

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 5, 1995.

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 22, 1994

Report Signed On: March 29, 1995





# 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
Kari Irber, CPA	Auditor-in-Charge
Fubara Dapper	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, 1994:

Anne Barry	Deputy Commissioner (now Acting Commissioner)
David Hovet	Accounting Director



# Minnesota Department of Health

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## Introduction

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The mission of the Minnesota Department of Health (MDOH) is to protect, maintain, and improve the health of the citizens of Minnesota. Some of the activities the department performs to achieve this goal include 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. Mary Jo O'Brien was appointed commissioner effective September 1, 1993 and served until January 20, 1995.

The department was reorganized in November 1993 into three bureaus: Health Delivery Systems, Health Quality Assurance, and Health Protection. Previous to November 1993, there were four bureaus. Each bureau is responsible for a number of activities.

- The Bureau of Health Delivery Systems' main objective is to promote optimal health outcomes for all Minnesotans through the development of comprehensive and integrated health systems.
- The Bureau of Health Quality Assurance 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 Health Protection'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.

Total expenditures and revenues for the Department of Health for fiscal year 1994 were \$153,862,775 and \$101,998,804, respectively. Our audit included only expenditures and revenues of selected programs for fiscal year 1994 as presented in Table 1.

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**Table 1**  
**Expenditures and Revenues of Selected Programs**  
**Fiscal Year 1994**

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Expenditures:

Women, Infants, and Children (WIC) Special Supplemental Food Program (1)	\$53,802,547
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Revenues:

Women, Infants, and Children (WIC) Special Supplemental Food Program	\$39,934,764
WIC Rebate Revenue	12,220,813
State Government Special Revenue (including service charges, inspection fees, occupational services, and permits and licenses)	11,929,386

(1) The Women, Infants, and Children expenditures are financed by both WIC federal grant revenue (CFDA #10.557) and WIC Rebate Revenue.

Source: Managers Financial Report and Estimated/Actual Receipt Report as of September 4, 1994 for total expenditures and total revenues. 1994 financial statement conclusions for the Minnesota Comprehensive Annual Financial Report for the WIC expenditures and rebate.

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## Current Findings and Recommendations

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- 1. The Minnesota Department of Health (MDOH) did not pay its invoices promptly and paid duplicate travel expenses from an original and a resubmitted copy.**

The Minnesota Department of Health (MDOH) did not meet the state prompt payment requirements during fiscal year 1994 and also did not input some payments correctly.

The agency was five months in arrears for payments to the Department of Administration for renting state cars. At June 30, 1994, the agency had \$251,770 in outstanding car rental invoices. These invoices originated from rentals in January 1994 through May 1994. Department of Finance policy 06:09:05 states that agencies are to pay interagency payments within seven days of receipt.

According to Minn. Stat. Section 16A.124, agencies must pay vendors within the vendor's early discount period. If there is no early discount period, the state agency must pay the vendor within 30 days following the receipt of the invoice. The statute also states that if the payments are not made within the 30 days, the agency is liable for paying the vendor interest charges.

According to the monthly prompt payment reports issued by the Department of Finance, the Department of Health only achieved the desired 98 percent prompt payment rate during one month from July 1993 to August 1994. During August 1994, the department paid \$322,955 of invoices after the 30-day invoice date. In August, it only achieved an 85 percent prompt payment rate. MDOH needs to pay invoices within 30 days after receipt to prevent disputes with the vendor and from incurring interest charges.

In addition, while testing payments for the Supplemental Food Program for Women, Infants and Children (CFDA #10.557), we noted that during August 1994, the department made duplicate travel payments of \$416 to one employee in error. The first payment of \$416 was made from an original travel voucher, and the second payment of \$416 was made from a resubmitted copy of the first voucher, but with a new approval by the supervisor. The employee repaid the duplicate amount only after we brought the matter to the attention of the department. The department needs to ensure that the correct payments are made and that any errors are corrected or repaid.

### *Recommendations*

- The Minnesota Department of Health should pay bills on a timely basis to ensure that it is meeting the desired prompt payment rate.*
- The Minnesota Department of Health should ensure that payments are input into the Statewide Accounting System correctly and correct any errors timely.*

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### **2. PRIOR FINDING NOT RESOLVED: The Minnesota Department of Health has not monitored the resolution of subrecipient audit findings under the Single Audit Act.**

The department has not resolved issues concerning grant noncompliance or crosscutting findings at the subrecipient level. The department has been aware of this problem for many years, but it still has not implemented corrective action. For fiscal year 1992 audits, the agency had sent letters in fiscal year 1993 to about half of these subgrantees who had the ten instances of grant noncompliance. The agency also had not followed up on any of the six instances from the fiscal year 1993 reports. No follow-up work was done on any of the subrecipient findings during fiscal year 1994.

The department also is responsible for following up on crosscutting findings for subrecipients 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, 1993 shows five 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.*

### **3. PRIOR FINDING PARTIALLY RESOLVED: The Minnesota Department of Health (MDOH) did not pay its statewide indirect costs timely.**

The department did not make timely payments of its final 1993 and 1994 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 1993 payment in May 1994, seven months after the deadline. The department has not yet made the final fiscal year 1994 payment, which was due in October 1994. The department has been aware of this problem for several years, but has not resolved it.

#### *Recommendation*

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

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### **4. Unauthorized MDOH employees have access to the Statewide Accounting (SWA) System and the Personnel/Payroll System (PPS).**

The department does not fully limit access to the Statewide Accounting (SWA) System and the Personnel/Payroll System (PPS). For the SWA System, two employees had access that did not need access to the system. One employee no longer works in the division and the other employee no longer inputs SWA payments. For the PPS, three employees had access that should not have had access to the system. One employee no longer inputs payroll, and two employees from the Human Resources Division should not input payroll transactions.

MDOH must allow only appropriate people to access the systems, because allowing additional people access to these systems increases the risk for errors or irregularities. In addition, an appropriate separation of duties does not exist when Human Resources employees can input payroll transactions.

#### *Recommendation*

- *MDOH should allow only appropriate employees input access to the SWA System and PPS.*

### **5. Several MDOH areas do not control receipts adequately.**

The Minnesota Department of Health needs to strengthen receipt controls in several areas. The financial management section must improve check endorsement procedures. In two areas, the department did not meet prompt depositing requirements. The survey and compliance section needs to separate controls over the licensing and depositing function.

The various divisions within the Minnesota Department of Health initially receive the receipts and then code the deposits to the appropriate accounts. Currently, there are about 21 clerks who receive checks or cash. The divisions submit the deposits and money to the financial management section within the department. The financial management section then enters the deposit totals into the Statewide Accounting System and deposits the money into the state treasury.

The financial management section needs to improve some controls over the receipts it receives directly. The section does not endorse these checks immediately. Instead, the receptionist opens the mail, another employee prepares the cash log, and then another person prepares the deposits and endorses the checks. Without immediately endorsing the checks upon receipt, the likelihood of lost or stolen checks increases.

Our review indicated that the survey and compliance section was not always depositing promptly. According to Minn. Stat. Section 16A.275, receipts are to be deposited daily

## Minnesota Department of Health

when receipts exceed \$250. For the survey and compliance section, seven of eight receipts tested were not deposited within 24 hours by that section or the financial management section. The department held some of the receipts for a week before the receipts were deposited. The deposits varied from about \$2,800 to \$13,700.

The survey and compliance section also needs to separate controls over the licensing and depositing functions. One person prepares the deposits, endorses the checks, updates the licensing system, and ultimately prints out the licenses to nursing homes, hospitals, and home care facilities. Although another person does record the checks on the application, no one verifies that those receipts are deposited. In addition, even though another employee reconciles the deposits to the statewide accounting reports, no one reconciles the payments in the licensing system to the Statewide Accounting System totals.

### *Recommendations*

- *The financial management section should endorse all checks upon receipt.*
- *The department should deposit receipts promptly.*
- *The department should separate the licensing and depositing functions in the survey and compliance section.*

#### **6. MDOH did not adjust actual payroll costs for one employee, who was split funded between two federal programs, to actual time worked.**

During fiscal year 1994, one employee who is split funded from the Special Supplemental Food Program for Women, Infants, and Children (WIC) (CFDA #10.557) and the Commodity Supplemental Food Program (CFDA #10.565) did not report actual hours worked on each federal program. MDOH set up the employee's payroll funding so that the employee was paid 20 percent out of the WIC program and 80 percent out of the other federal program. The employee's salary and range was \$13,788 from the WIC program and \$24,237 from the Commodity Supplemental Food Program for fiscal year 1994.

The employee's timesheet did not show actual hours worked on specific programs. The department uses time studies to determine whether or not payroll costs are being reported accurately. We were told the normal practice is to do time studies four times a year for the WIC employees. However, we did not find any evidence that time studies were used to document this employee's time on each program. The department also reversed the percentages to 80 percent WIC and 20 percent out of the other federal program for a time period during the audit. This change was only an estimate, because the employee was reaching the salary maximum of \$30,000 for the federal fiscal year. The hours and duties were changed to prevent this from happening.

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Federal guidelines provide that the department must maintain an equitable time distribution system to support payroll costs to federal programs. The U.S. Office of Management and Budget Circulars A-87 and A-121 provide: "Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records."

### *Recommendation*

- *MDOH should have employees, who are split funded between federal programs, record actual hours on each federal program.*





**Minnesota Department of Health**

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March 23, 1995

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 year 1994.

Recommendation:

The Minnesota Department of Health should pay bills on a timely basis to ensure that it is meeting the desired prompt payment rate.

Response:

The department has always attempted to meet the 98% prompt payment requirement established by the Department of Finance. However, due to staff turnover, increased demands, and staff inexperience, the department has not always met that goal. The department is confident that recent staffing changes and restructuring of work flow will enable the agency to meet the 98% goal on a consistent basis. The most recent report reflected a 99.2% prompt payment rate.

Recommendation:

The Minnesota Department of Health should ensure that payments are input into the Statewide Accounting System correctly and correct any errors timely.

Response:

The department concurs with the recommendation. This error has been corrected.

Recommendation:

The department should resolve subrecipient audit findings in

accordance with federal regulations.

Response:

The department will change its current policy of waiting for subsequent audits to resolve subrecipient audit findings and initiate action on resolution upon receipt of findings. It should be noted that action has been or will be taken on all audits by April 30, 1995.

Recommendation:

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

Response:

The department's Section of Financial Management adopted procedures to assure compliance with this recommendation.

Recommendation:

MDOH should allow only appropriate employees input access to the SWA System and PPS.

Response:

The department will update its clearances for all employees with access to SWA System and PPS by April 1, 1995 (Sections of Financial Management and Human Resources Management).

Recommendation:

The Financial Management Division should endorse all checks upon receipt.

Response:

The department will begin this procedure immediately.

Recommendation:

The department should deposit receipts promptly.

Response:

The Licensing and Certification Section has established procedures to follow when their licensing system is down to assure prompt deposit of receipts.

Recommendation:

The department should separate the licensing and depositing functions in the survey and compliance unit.

Response:

The Survey and Compliance Unit will separate these functions and have them performed by separate individuals by April 1, 1995.

Recommendation:

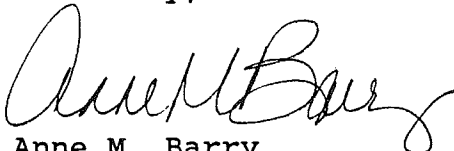
MDOH should have employees who are split funded between federal programs record actual payroll costs.

Response:

The department has a long-standing department policy requiring time studies to be completed on a regular basis for all employees who are split funded. The time study in question has been completed.

Thank you for your attention to these matters and the respectful way in which your staff conducted themselves during this audit.

Sincerely,



Anne M. Barry  
Acting Commissioner