

Department of Health

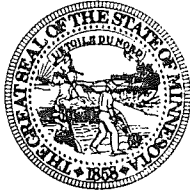
Supplemental Nutrition Program for Women, Infants, and Children Fiscal Year Ended June 30, 1996

February 1997

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

97-7



STATE OF MINNESOTA

OFFICE OF THE LEGISLATIVE AUDITOR

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JAMES R. NOBLES, LEGISLATIVE AUDITOR

Members of the Legislative Audit Commission

Ms. Anne M. Barry, Commissioner
Department of Health

We have audited selected areas of the Department of Health for the fiscal year ended June 30, 1996, as further explained in the Introduction. The work conducted in the department is part of our Statewide Audit of the state of Minnesota's fiscal year 1996 financial statements and Single Audit (federal compliance audit.) The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our report, issued thereon dated December 10, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996, will include our reports on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1997. We emphasize that this has not been a complete audit of all financial activities of the Department of Health. The following Summary highlights the audit objectives and conclusions.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, as issued by the Comptroller General of the United States. Those standards require that we obtain an understanding of management controls relevant to the audit. The standards require that we design the audit to provide reasonable assurance that the Department of Health complied with provisions of laws, regulations, contracts, and grants that are significant to the audit. Management of the Department of Health is responsible for establishing and maintaining the internal control structure and complying with applicable laws, regulations, contracts, and grants.

This report is intended for the information of the Legislative Audit Commission and the management of the Department of Health. This restriction is not intended to limit the distribution of this report, which was released as a public document on February 7, 1997.

James R. Nobles
Legislative Auditor

John Asmussen, CPA
Deputy Legislative Auditor

End of Fieldwork: December 10, 1996

Report Signed On: January 31, 1997

SUMMARY

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Department of Health

Supplemental Nutrition Program for Women, Infants, and Children Fiscal Year Ended June 30, 1996

Public Release Date: February 7, 1997

No. 97-7

Agency Background

The mission of the Minnesota Department of Health (MDH) is to protect, maintain, and improve the health of the citizens of Minnesota. The department is organized into two divisions: Health Systems and Special Populations, and Health Protection. Some of the activities the department performs to achieve its goals 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. Anne M. Barry is the commissioner of the department.

Selected Audit Areas and Conclusions

Our audit scope was limited to those areas material to the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1996, and to the Single Audit objectives. The only area that met this criteria is the Supplemental Nutrition Program for Women, Infants, and Children (WIC). The WIC Program is designed to provide supplemental food and nutritional education to disadvantaged children and pregnant women. The areas of the WIC Program we audited include: cash management, rebate revenues, expenditures, payroll, and indirect costs. We also verified Single Audit general requirements.

We found that the federal drawdowns, rebate revenues, and grant expenditures are fairly presented on the State of Minnesota's Comprehensive Annual Financial Report for fiscal year 1996.

We found that MDH complied with the applicable general and program specific federal requirements for the WIC Program. However, the department did not draw down indirect cost earnings from federal sources in a timely manner and exceeded its authorization to make payments prior to receiving federal money.

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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 |
| Dale Ogren, CPA | Auditor-in-Charge |
| Marina Mirman | Auditor |

Exit Conference

We discussed findings and recommendations with the following staff of the Department of Health on January 21, 1997:

| | |
|---------------------------|--|
| Kirsten J. Libby | Director of Budget and Legislation |
| David Hovet | Director of Financial Management |
| Mary Donahue | Manager, WIC Program |
| Cindy Malm | Performance Measurement Analyst |
| Harvey T. Slaughten, Ph.D | Director, Planning, Policy, and Evaluation |

Chapter 1. Introduction

The mission of the Minnesota Department of Health (MDH) is to protect, maintain, and improve the health of the citizens of Minnesota. The department is organized into two divisions: Health Systems and Special Populations, and Health Protection. Some of the activities the department performs to achieve its goals include completing 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. As of October 1996, total fiscal year 1996 expenditures and obligations for the department were approximately \$185 million. Anne M. Barry is the commissioner of the department.

Our audit scope focused on 1996 WIC federal drawdowns, rebate revenues, and expenditures. These financial activities, which were material to the state's financial statements and to the Single Audit objectives, are shown in Table 2-1.

The primary objective of the Statewide Audit is to render an opinion on the state of Minnesota's financial statements included in its Comprehensive Annual Financial Report for fiscal year 1996. This includes whether the financial statements of the state present fairly its financial position, results of operations, and changes in cash flows in conformity with generally accepted accounting principles. As part of our work, we are required to gain an understanding of the internal control structure and ascertain whether the state complied with laws and regulations that may have a material effect on its financial statements.

The Statewide Audit is designed to also meet the requirements of the Single Audit Act of 1984, relating to federal financial assistance. The Single Audit Act established two additional audit objectives and requires us to determine whether:

- the state complied with rules and regulations that may have a material effect on each major federal program; and
- the state has internal accounting and other control systems to provide reasonable assurance that it is managing federal financial assistance programs in compliance with applicable laws and regulations.

To address these objectives, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of financial transactions or performed analytical procedures, as appropriate.

Our work in the Department of Health is completed as part of our audit to express an opinion of the state's fiscal year 1996 financial statements. The Comprehensive Annual Financial Report for the year ended June 30, 1996, includes our opinion, issued thereon dated December 10, 1996. The Minnesota Financial and Compliance Report on Federally Assisted Programs for the year ended June 30, 1996, will include our opinions on the supplementary information schedule, internal control structure, and compliance with laws and regulations. We anticipate issuing this report in June 1997.

Chapter 2. Women, Infants, and Children (WIC) Program

Chapter Conclusion

The Supplemental Nutrition Program for Women, Infants and Children (WIC), CFDA 10.557, had adequate internal controls in place to reasonably ensure the proper processing, recording, and accounting of program expenditures and payroll. The program also complied with applicable finance related federal requirements and regulations. However, we found that the department did not draw down indirect cost earnings from federal sources in a timely manner.

The WIC Infant Formula Rebate System was intended to increase participation in the WIC Program. MDH received rebates from the formula manufacturer based on the number of cans purchased. We found that internal controls over WIC rebate revenues were adequate to prevent and detect material errors and irregularities.

WIC Program

Background

The Supplemental Nutrition Program for Women, Infants, and Children (WIC), CFDA 10.557, was introduced in 1972. The WIC Program has three basic goals:

- Provide nutrition education
- Provide supplemental free foods
- Encourage regular health care

The Minnesota Department of Health administers the Minnesota WIC Program. The department is responsible for ensuring that WIC services are effectively delivered to program participants and that compliance to program requirements is maintained. Department staff provides management consultation, technical assistance, and training to local agency staff and authorized WIC vendors.

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Fiscal year 1996 WIC revenues and expenditures are shown in Table 2-1.

Table 2-1
Financial Activities - WIC Program
Year Ended June 30, 1996

| | |
|-------------------------|---------------------|
| <u>Revenues</u> | |
| WIC federal drawdowns | \$47,827,402 |
| WIC rebates | <u>13,347,610</u> |
| | <u>\$61,175,012</u> |
| <u>Expenditures</u> | |
| WIC expenditures | <u>\$61,175,012</u> |

Source: State of Minnesota Summary of Expenditures by agency; CFDA for Single Audit; and fiscal year activity during the period July 1, 1995, to September 27, 1996.

The Minnesota WIC Program consists of local agencies throughout the state. The local agencies are administered by Community Health Services (CHS), Community Action Programs (CAP) or Native American reservations, according to federal regulations and state rules. There are 1,328 vendors throughout the state in eight regions. Each vendor agrees to follow the guidelines that the Department of Health establishes.

Local agencies are responsible for determining eligibility of WIC Program applicants and for providing nutrition education, health care referral services, and issuing vouchers to participants. Currently, WIC services are available to all 87 counties.

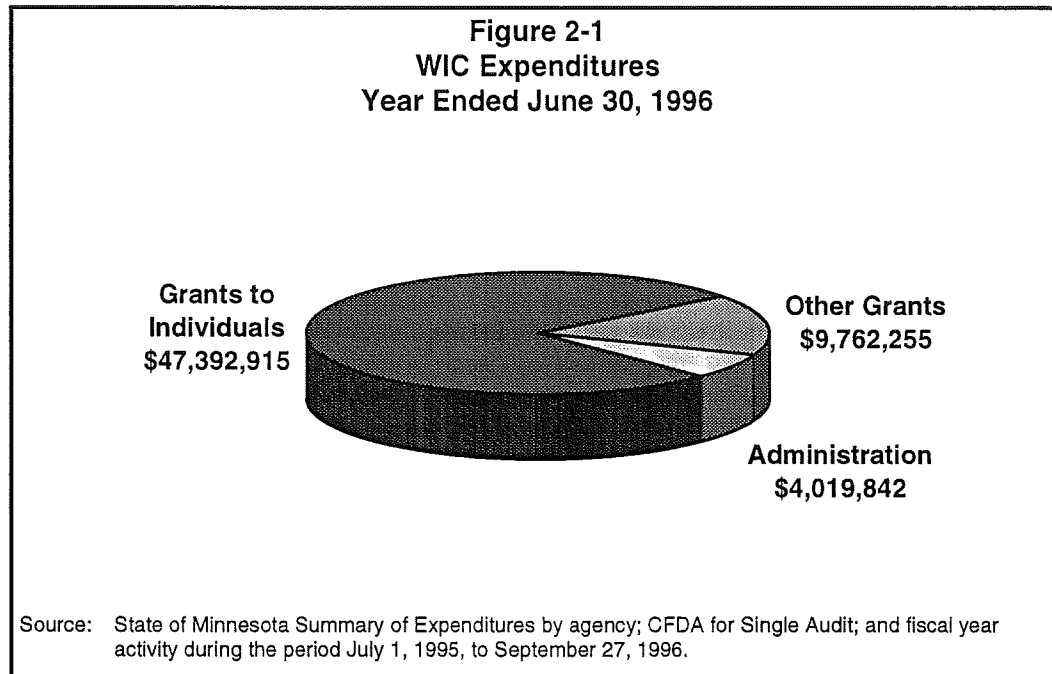
The certification process for applicants occurs in two phases. The first phase, referred to as prescreening, determines whether an applicant meets the general WIC Program eligibility criteria of status, residency and income. Applicants meeting all three of the general WIC Program eligibility criteria may be scheduled for a nutritional risk assessment, which is the second phase of certification to determine nutritional need.

WIC is also available to pregnant and breast feeding women, infants, and children up to the age of five. Eligibility for the program is determined by qualified health care professionals. First priority is pregnant women, since better nutrition increases the chances of having a healthy baby. Breast feeding women and infants are the next priority, followed by children up to the age of five. Nutritional need and family income are two other criterion used in the eligibility determination.

The WIC grant specifies how money is to be used. Separate grants are given for food and administrative costs. Excess administrative funds can be used for food costs.

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Figure 2-1 shows additional financial analysis of the WIC expenditures. This analysis shows that 93 percent of WIC funds were expended as grants to individuals, cities, and counties. Cities and counties use grant money to provide a variety of WIC client services, including pregnancy and breast feeding classes and nutrition education.



In addition to specific WIC requirements, the department must also comply with general federal requirements. Those requirements include policies and procedures relating to cash management, indirect costs, subrecipient monitoring, civil rights, political activity, and a drug-free work place.

Audit Objectives and Methodology

The objectives of our audit were to answer the following questions:

- Were internal controls over WIC expenditures adequate to prevent and detect material errors and irregularities?
- Was the Department of Health in compliance with specific and general federal WIC Program requirements?
- Were WIC expenditures correctly recorded on the state's accounting system?
- Did the Department of Health properly transfer indirect costs earned to appropriate state accounts?

To answer these questions, we interviewed key department employees and reviewed the procedures the department followed in processing, recording, and accounting for WIC Program expenditures and payroll. We also tested whether the department complied with specific and general federal requirements and regulations.

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Conclusion

We found that the department had adequate internal controls in place to ensure the proper processing, recording, and accounting of WIC Program expenditures and payroll. We also found that the Department of Health complied with specific federal regulations and general requirements. However, we found that the department did not draw down indirect cost earnings from federal sources in a timely manner, as discussed below.

1. The department exceeded its authorization to make payments prior to receiving federal money.

The Department of Health (MDH) incurred obligations in the indirect cost account in excess of available resources. Because of delays in receiving federal reimbursements, MDH was authorized by the Department of Finance to remove a computer edit that limited spending to resources deposited in the department's indirect cost account. As a result, the department could continue to make expenditures from the indirect cost account in anticipation of future federal reimbursements.

MDH continued to make expenditures from the indirect cost account in excess of the amount authorized by the Department of Finance under Operating Policy and Procedure No. 0306-03. Health was authorized to exceed available resources in the account by \$200,000, but at one point during the year, it exceeded resources by \$3 million. Eventually, the department was reimbursed by the federal government and had a surplus of \$500,000 in the account by the end of the fiscal year.

Recommendation

- *The department should draw down indirect cost earnings in a timely manner.*

WIC Rebates

Background

The state of Minnesota implemented a WIC Infant Formula Rebate System intended to increase participation in the Supplemental Nutrition Program for Women, Infants, and Children by eligible Minnesota residents.

The WIC Program offers iron-fortified infant formula in liquid concentrate, powdered, and ready-to-feed forms. The Department of Health solicits bids from formula manufacturers to get the lowest price available. The manufacturer agrees to provide to the state a rebate for iron-fortified infant formula sold to WIC Program participants. The manufacturer reimburses the department for a part of the price paid by the state for the purchase of the formula.

The manufacturer and the state each contact major wholesalers and grocers' associations in Minnesota and all authorized Minnesota WIC Program vendors to ensure adequate knowledge of the single source brand of WIC formula by the parties prior to implementation.

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Total WIC rebate revenues for the fiscal year 1996 were \$13,347,610, as shown in Table 2-1. The rebate money reduced the amount of federal drawdowns needed.

Audit Objectives and Methodology

The objectives of our audit were to answer the following questions:

- Were WIC rebate payments received within the time frame specified in the contract?
- Were WIC rebates calculated using correct formulas and correct data?
- Were WIC rebates correctly recorded in the state's accounting system?

To answer these questions, we tested the number of days it took to receive rebate payments. We reviewed rebate formulas and recalculated rebate amounts for fiscal year 1996. We traced the rebate amounts to state accounting records. We obtained a confirmation report from the manufacturer and compared the data to the recorded amounts.

Conclusion

We reviewed the WIC Program internal control procedures MDH uses to account for the rebates. We found that internal controls over WIC rebate revenues were adequate to prevent and detect material errors and irregularities.



Minnesota Department of Health

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January 27, 1997

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
Centennial Building
658 Cedar Street
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 1996.

Recommendation:

The department should draw down indirect cost earnings in a timely manner.

Response:

The department agrees with the audit report finding that the department exceeded the authorized negative balance amount. The main problem causing the shortfall was that no earnings were transferred to the indirect cost account from July 1, 1995, to January 30, 1996, because of staff inability to process transactions in the new accounting system. This should not recur because transactions are now being routinely processed. In addition, the department will be going to a system where during the first month of the fiscal year, a drawdown of indirect cost earnings will be made on an estimated basis, allowing the department to be current with transfers of earnings instead of always being one month behind in collections. The department will also be looking at other options for rates to ease the preparing of the indirect cost plan and calculating the collections.

Thank you for the respectful manner in which this audit was conducted.

Sincerely,

Anne M. Barry
Commissioner