
Department of Health

Statewide Audit – Selected Audit Areas Fiscal Year Ended June 30, 1998

March 1999

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

99-20

SUMMARY

State of Minnesota

Office of the Legislative Auditor

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Department of Health

Statewide Audit – Selected Audit Areas For the Year Ended June 30, 1998

Public Release Date: March 18, 1999

No. 99-20

Background Information

The mission of the Minnesota Department of Health is to protect, maintain, and improve the health of the citizens of Minnesota. Ms. Anne M. Barry was the commissioner of the department during the audit period. Ms. Jan Malcolm was appointed commissioner in January 1999.

Selected Audit Areas and Conclusions

Our audit scope was limited to those activities material to the State of Minnesota's general purpose financial statements for the year ended June 30, 1998, and to the federal Single Audit objectives. Our primary audit objective was to render an opinion on the State of Minnesota's financial statements. Our scope within the Department of Health included the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and the Maternal and Child Health Services Block Grant (MCH).

We qualified our report, dated December 1, 1998, on the State of Minnesota's Comprehensive Annual Financial Report because insufficient audit evidence exists to support the State of Minnesota's disclosures with respect to the year 2000. Auditing the state's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the Department of Health is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Health does business will be year 2000 ready.

For the areas audited, the Department of Health's financial activities were fairly presented in the general purpose financial statements of the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. Except for the following issues, the department complied, in all material respects, with the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* for the federal programs tested for the year ended June 30, 1998. The department did not visit the required number of clinics, or follow up with subrecipients on audit findings. In addition, the department did not require suspension or debarment certifications from vendors receiving more than \$100,000. We also noted that duties related to refunds collected from WIC vendors were not adequately separated.

The department has agreed with three of our four findings and is taking steps to resolve them. The department has disagreed with our finding on the required number of clinics visited. Final resolution rests with the U.S. Department of Agriculture.

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Audit Participation

The following members of the Office of the Legislative Auditor prepared this report:

| | |
|------------------------|----------------------------|
| Claudia Gudvangen, CPA | Deputy Legislative Auditor |
| Tom Donahue, CPA | Audit Manager |
| Scott Tjomsland, CPA | Auditor-in-Charge |
| Dan Kingsley | Auditor |

Exit Conference

The findings and recommendations in this report were discussed with the following officials of the Department of Health at the exit conference held on February 26, 1999:

| | |
|-------------|---|
| Pati Maier | Assistant Director, Division of Family Health |
| David Hovet | Director of Financial Management |
| Tom Maloy | Budget Officer |

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STATE OF MINNESOTA
OFFICE OF THE LEGISLATIVE AUDITOR
JAMES R. NOBLES, LEGISLATIVE AUDITOR

Representative Dan McElroy, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Ms. Jan Malcolm, Commissioner
Department of Health

We have performed certain audit procedures at the Department of Health as part of our audit of the financial statements of the State of Minnesota as of and for the year ended June 30, 1998. We also have audited certain federal financial assistance programs administered by the Department of Health as part of our audit of the state's compliance with the requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 1998. We emphasize that this has not been a comprehensive audit of the Department of Health.

Table 1-1 identifies the financial activities within the Department of Health that were material to the state's financial statements. We performed certain audit procedures on these Department of Health programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota's financial statements for the year ended June 30, 1998, were free of material misstatement.

Table 1-1
Department of Health
Programs Material to the State's Financial Statements
Fiscal Year 1998

| | <u>Amount</u> |
|--|---------------|
| <u>Revenue Areas</u> | |
| WIC Rebates | \$16,571,388 |
| <u>Expenditure Areas</u> | |
| WIC (Food Costs & Administrative Grants) | \$60,020,244 |

Source: State of Minnesota Comprehensive Annual Financial Report and Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

Table 1-2 identifies the State of Minnesota's major federal programs administered by the Department of Health. We performed certain audit procedures on these Department of Health programs as part of our objective to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its major federal programs.

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Table 1-2
Department of Health
Major Federal Programs Administered by the Department of Health
Fiscal Year 1998

| <u>Program Name</u> | <u>Federal</u> | <u>State</u> | <u>Total</u> |
|---------------------|----------------|--------------|--------------|
| WIC | \$63,663,786 | \$ 0 | \$63,663,786 |
| MCH | \$10,529,547 | \$3,993,106 | \$14,522,653 |

Source: Minnesota Accounting and Procurement System (MAPS) for fiscal year 1998.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Conclusions

We qualified our report dated December 1, 1998, on the State of Minnesota's Comprehensive Annual Financial Report, because of uncertainties about the potentially adverse effect the year 2000 computer issue may have on state operations. Information technology experts believe that many computer applications in private businesses and government may fail as a result of data integrity problems and erroneous calculations beyond December 31, 1999. The state is currently addressing year 2000 issues related to its computer systems and other electronic equipment. During fiscal year 1996, the state established the Minnesota Year 2000 Project Office to develop and monitor the overall statewide effort for executive branch agencies. The project office is tracking over 1,300 mission-critical applications owned by state agencies. As of September 1998, the project office believed that 75 percent of the applications were compliant or had completed the necessary modifications. However, because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Auditing the state's year 2000 compliance efforts was not an objective of this audit. As a result, we do not provide assurance that the Department of Health is or will be year 2000 ready, that its year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Department of Health does business will be year 2000 ready.

In accordance with *Government Auditing Standards*, we have also issued our report, dated December 1, 1998, on our consideration of the State of Minnesota's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulation, contracts, and grants. At a later date, we will issue our report on compliance with requirements applicable to each major federal program and internal control over compliance in accordance with OMB Circular A-133.

Department of Health

For the areas audited, the Department of Health's financial activities were fairly presented in the general purpose financial statements of the State of Minnesota's Comprehensive Annual Financial Report for the year ended June 30, 1998. Except for the issues discussed in Findings 2, 3, and 4 for the federal programs tested, the department complied, in all material respects, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* for the year ended June 30, 1998. As a result of our procedures, we also noted an internal control issue related to an inadequate separation of duties, as explained in Finding 1.

1. The department did not adequately separate duties related to refunds collected from WIC vendors. The department also did not promptly deposit WIC vendor refunds.

One department employee reviewed reports listing potential WIC vendors who may have overcharged the WIC program, determined which vouchers were overcharged, pursued collection of refunds from vendors, and received refund checks from vendors. For adequate separation, an individual responsible for reviewing vouchers and pursuing collection of refunds should not have access to refund checks. Without adequate separation, irregularities or fraud could occur without detection.

The department did not deposit vendor refunds exceeding \$250 on a daily basis. Minnesota Statute Section 16A.275 states that, "all receipts exceeding \$250 must be deposited daily." The department employee who collected vendor refunds kept them locked in his office. Approximately once a month, the employee sent the refunds to the department's Financial Services Section for deposit. During fiscal year 1998, the department made 11 vendor refund deposits in amounts that ranged from \$1,900 to \$8,800. We observed one vendor refund deposit transaction made up of approximately 220 refund checks.

Recommendations

- *The department should adequately separate duties related to WIC vendor refunds.*
- *The department should promptly deposit WIC vendor refunds exceeding \$250.*

2. The department did not visit at least 20 percent of the clinics used by one local WIC agency during its management evaluation.

The department's management evaluation of a local WIC agency included an on-site review of only one of the agency's seven clinics used for the WIC program. The Code of Federal Regulations section 246.19 (b)(3) states "The state agency shall conduct monitoring reviews of each local agency at least once every two years. Such reviews shall include on-site reviews of a minimum of 20 percent of the clinics in each local agency or one clinic, whichever is greater." A local agency may be a county, municipality, community health center, Indian reservation, or other organization under contract with the department to administer the WIC program. Local agencies are responsible for determining the eligibility of individuals participating in the WIC program.

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The department used standard procedures and forms for its management evaluations. However, the procedures and forms did not include steps to ensure that the department performed on-site reviews of at least 20 percent of local agency clinics. Instead, the department relied on the judgment of the evaluator to determine which clinics to visit. The department could eliminate the risk of noncompliance by formalizing its identification of the minimum number of clinics to visit during each evaluation.

Recommendation

- *The department should establish procedures to ensure it complies with federal requirements related to management evaluations of WIC local agencies.*

3. The department did not ensure its subrecipients took prompt corrective action on audit findings.

The department did not follow up with subrecipients on audit findings related to federal programs. OMB *Circular A-133* (.400 (d)(5)) requires states to ensure that subrecipients take appropriate and timely corrective action in response to audit findings. The department receives information on subrecipient audits from the annual report titled *Federally Assisted Programs of Subrecipients of the State of Minnesota* produced by the Minnesota Office of the State Auditor. The department also receives copies of individual audit reports of subrecipients with audit findings related to federal programs; however, the department did not contact subrecipients in response to audit findings. Instead, the department relied on prior issue follow up procedures performed by independent auditors of subrecipients to ensure findings were corrected.

Recommendation

- *The department should follow up with subrecipients on audit findings to ensure subrecipients take appropriate and timely corrective action.*

4. The department did not require suspension and debarment certifications from vendors receiving awards in excess of \$100,000, or from its subrecipients.

The department did not obtain written certifications to verify that its vendors and subrecipients had not been federally suspended or debarred before awarding contracts or grants. According to the federal government's *Governmentwide Common Rule for Nonprocurement Debarment and Suspension*, vendors awarded contracts for goods or services using federal funds in excess of \$100,000 and all subrecipients receiving federal funds must certify that the organization and its principals are not suspended or debarred. The department may rely upon the certification unless it knows that the certification is erroneous.

Recommendation

- *The department should require that vendors receiving federal funds in excess of \$100,000 and all subrecipients certify that they are not suspended or debarred by the federal government.*

Department of Health

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 March 18, 1999.

/s/ James R. Nobles

James R. Nobles
Legislative Auditor

/s/ Claudia J. Gudvangen

Claudia J. Gudvangen
Deputy Legislative Auditor

End of Fieldwork: January 22, 1999

Report Signed On: March 10, 1999

Status of Prior Audit Issues As of January 22, 1999

March 6, 1998, Legislative Audit Report 98-13 examined the department's activities and programs material to the State of Minnesota's Annual Financial Report or the Single Audit for the year ended June 30, 1997. The report contained no findings or recommendations.

State of Minnesota Audit Follow-Up Process

The Department of Finance, on behalf of the Governor, maintains a quarterly process for following up on issues cited in financial audit reports issued by the Legislative Auditor. The process consists of an exchange of written correspondence that documents the status of audit findings. The follow-up process continues until Finance is satisfied that the issues have been resolved. It covers entities headed by gubernatorial appointees, including most state agencies, boards, commissions, and Minnesota state colleges and universities. It is not applied to audits of the University of Minnesota, any quasi-state organizations, such as the metropolitan agencies, or the State Agricultural Society, the state constitutional officers, or the judicial branch.



Protecting, Maintaining and Improving the Health of All Minnesotans

March 8, 1999

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
First Floor South, 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 1998.

Recommendation:

The department should adequately separate duties related to WIC vendor refunds.

Response:

The department concurs with the audit report recommendation. The department will separate duties related to WIC vendor refunds by assigning the duties for the receipt of vendor refund checks to another employee in the WIC Section. The WIC Director, Betsy Clarke, will assure that the staff reassignment is accomplished.

Recommendation:

The department should promptly deposit WIC vendor refunds exceeding \$250.

Response:

The department concurs with the audit report recommendation. The department will assure that the new WIC staff assigned to make deposits receive training. The WIC Director, Betsy Clarke, will assure proper training is accomplished.

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Recommendation:

The department should establish procedures to ensure it complies with federal requirements related to management evaluations of WIC local agencies.

Response:

The department does not concur with this finding. Our understanding, verified by the United States Department of Agriculture (USDA) Regional WIC Director in Chicago, is that a “clinic” in the federal regulations is interpreted to mean a fixed site. All local staff performing WIC certification and voucher issuance are evaluated during the state’s Management Evaluation process, although not all (and sometimes less than 20% of) the temporary sites at which they serve participants are visited by state staff. USDA recently advised us that we are exceeding the USDA regulatory requirements in the number of clinic sites monitored.

Recommendation:

The department should follow up with subrecipients on audit findings to ensure subrecipients take appropriate and timely corrective action.

Response:

The department concurs with the audit report recommendation. The department has taken a reactive approach to audit findings with subrecipients. The department will assign staff the responsibility to review the report entitled, “Federal Assisted Programs of Subrecipients of the State of Minnesota,” and to prepare follow up letters within four weeks. David Hovet, Director of Financial Services will assure that this action is taken.

Recommendation:

The department should require that vendors receiving federal funds in excess of \$100,000 and all subrecipients certify that they are not suspended or debarred by the federal government.

Response:

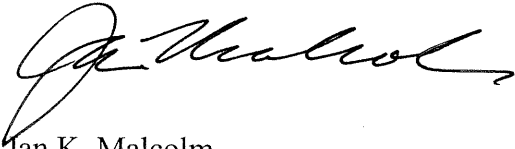
The department reluctantly concurs with this audit report finding. The department feels that the language is archaic and not necessary, but since it is a federal requirement, the department will comply. The department has received standard language from the Department of Administration

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that it will include in all requests for proposal (FRP) that will result in a contract in excess of \$100,000. The language includes the following: "The prospective participant certifies by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from participation in this transaction by any federal department or agency." David Hovet, Director of Financial Services, will assure that procedures are in place so that this RFP process contains this provision.

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

Sincerely,

A handwritten signature in black ink, appearing to read "Jan K. Malcolm", with a stylized, flowing script.

Jan K. Malcolm
Commissioner