



OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

FINANCIAL AUDIT DIVISION REPORT

Department of Health
Federal Compliance Audit
Year Ended June 30, 2014

March 25, 2015

Report 15-09

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Conclusion on Internal Controls

The Financial Audit Division bases its conclusion about an organization’s internal controls on the number and nature of the control weaknesses we found in the audit. The three possible conclusions are as follows:

Conclusion	Characteristics
Adequate	The organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Generally Adequate	With some exceptions, the organization designed and implemented internal controls that effectively managed the risks related to its financial operations.
Not Adequate	The organization had significant weaknesses in the design and/or implementation of its internal controls and, as a result, the organization was unable to effectively manage the risks related to its financial operations.



OFFICE OF THE LEGISLATIVE AUDITOR

State of Minnesota • James Nobles, Legislative Auditor

March 25, 2015

Representative Sondra Erickson, Chair
Legislative Audit Commission

Members of the Legislative Audit Commission

Dr. Edward Ehlinger, Commissioner
Minnesota Department of Health

This report presents the results of our audit of certain federal financial assistance programs administered by the Minnesota Department of Health during fiscal year 2014. We conducted this audit as part of our audit of the state's compliance with federal program requirements. We emphasize that this has not been a comprehensive audit of the Minnesota Department of Health.

We discussed the results of the audit with department staff on March 17, 2015. This audit was conducted by Scott Tjomslund, CPA, CISA (Audit Manager) and Emily Wiant (Auditor-in-Charge), assisted by auditors Natalie Mehlhorn and Cassie Harlin, CPA.

We received the full cooperation of the department's staff while performing this audit.

Handwritten signature of James R. Nobles in black ink.

James R. Nobles
Legislative Auditor

Handwritten signature of Cecile M. Ferkul in black ink.

Cecile M. Ferkul, CPA, CISA
Deputy Legislative Auditor

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Report Summary

Conclusion

The Minnesota Department of Health generally complied with and had controls to ensure compliance with certain legal requirements applicable to its major federal programs for fiscal year 2014. However, the department had some internal control weaknesses and noncompliance with federal requirements, as noted in the three findings presented in this report.

Audit Findings

- The Minnesota Department of Health did not accurately report federal expenditures for the Special Supplemental Nutrition Program for Women, Infants, and Children in the State of Minnesota's Schedule of Expenditures of Financial Awards. ([Finding 1, page 7](#))
- The Minnesota Department of Health did not always perform financial reviews of local agencies for the Special Supplemental Nutrition Program for Women, Infants, and Children at least once every two years. ([Finding 2, page 7](#))
- The Minnesota Department of Health did not comply with the state's agreement with the U.S. Treasury for the transfer of funds from the federal government for the Special Supplemental Nutrition Program for Women, Infants, and Children. ([Finding 3, page 8](#))

Audit Scope

Our scope included programs we determined to be major federal programs for the State of Minnesota for fiscal year 2014, including the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA¹ 10.557), Public Health Emergency Preparedness (CFDA 93.069), and National Bioterrorism Hospital Preparedness (CFDA 93.889).

¹ The Catalog of Federal Domestic Assistance (CFDA) includes unique numbers assigned by the federal government to identify its programs.

Department of Health

Federal Program Overview

The Minnesota Department of Health administered federal programs that we considered major federal programs for the State of Minnesota, subject to audit under the federal Single Audit Act.² Table 1 identifies these major federal programs. Appendix A, on page 12, provides the federal award numbers associated with these programs.

Table 1
Major Federal Programs
Administered by the Minnesota Department of Health
Fiscal Year 2014

<u>CFDA</u> ¹	<u>Program Name</u>	<u>Expenditures</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$93,633,838
93.069	Public Health Emergency Preparedness ²	\$11,151,638
93.889	National Bioterrorism Hospital Preparedness ²	\$ 6,733,383

¹ The Catalog of Federal Domestic Assistance (CFDA) includes unique numbers assigned by the federal government to identify its programs.

² We also audited the fiscal year 2013 federal expenditures for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs, which totaled \$12,416,947 and \$5,079,779, respectively.

Source: State of Minnesota's accounting system.

The Special Supplemental Nutrition Program for Women, Infants, and Children provides money for supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development, including pregnant women, breastfeeding women up to one year postpartum, non-breastfeeding women up to 6 months postpartum, infants, and children under age 5 determined to be at nutritional risk.

² We defined a major federal program for the State of Minnesota in accordance with guidance provided by the federal Office of Management and Budget. The guidance first defines "Type A" programs based on their expenditures. For Minnesota, the guidance defines "Type A" programs as a program or cluster of programs whose expenditures for fiscal year 2014 exceeded \$30 million.

However, as allowed by the federal guidance, we replaced a low-risk major federal program (the Immunization Cooperative Agreements program (CFDA 93.268) with \$49,411,183 in expenditures) with two non-major programs (the Public Health Emergency Preparedness (CFDA 93.069) and National Bioterrorism Hospital Preparedness (CFDA 93.889) programs), as shown in Table 1. We considered the unaudited major federal program as low-risk because it had no findings for the last three years.

The Public Health Emergency Preparedness program provides funding for activities targeted specifically for the development of emergency-ready public health departments that are flexible and adaptable to all types of hazards, including infectious disease outbreaks; natural disasters; biological, chemical, and radiological incidents; and explosions.

The National Bioterrorism Hospital Preparedness program provides money to ready hospitals and other healthcare systems, in collaboration with other partners, to deliver coordinated and effective care to victims of terrorism and other public health emergencies.

Objective, Scope, and Methodology

The objective of our audit was to determine whether the Minnesota Department of Health complied with federal program requirements in its administration of these federal programs for fiscal year 2014.³ This audit is part of our broader federal single audit designed to obtain reasonable assurance about whether the State of Minnesota complied with the types of compliance requirements that are applicable to each of its federal programs.⁴ In addition to specific program requirements, we examined the department's general compliance requirements related to federal assistance, including its cash management practices.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States of America, and with the U.S. Office of Management and Budget's *Circular A-133* and its *Compliance Supplement*.

Conclusion

The Minnesota Department of Health generally complied with and had controls to ensure compliance with certain legal requirements applicable to its major federal programs for fiscal year 2014. However, the department had some internal

³ We also audited the fiscal year 2013 federal expenditures for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs.

⁴ The State of Minnesota's single audit is an entity audit of the state that includes both the financial statements and the expenditures of federal awards by all state agencies. We issued an unqualified audit opinion, dated December 12, 2014, on the State of Minnesota's basic financial statements for the year ended June 30, 2014. In accordance with *Government Auditing Standards*, we also issued our report on our consideration of the State of Minnesota's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts, and grants. (Office of the Legislative Auditor, Financial Audit Division Report 15-02, *Internal Controls Over Statewide Financial Reporting*, issued February 19, 2015.) This report did not include control deficiencies related to the Minnesota Department of Health.

control weaknesses and noncompliance with federal requirements, as noted in the three findings presented in this report.

We will report these weaknesses to the federal government in the *Minnesota Financial and Compliance Report of Federally Assisted Programs*, prepared by the Department of Management and Budget. This report provides the federal government with information about the state's use of federal funds and its compliance with federal program requirements. The report includes the results of our audit work, conclusions on the state's internal controls over and compliance with federal programs, and findings about internal control and compliance weaknesses.

Findings and Recommendations

The Minnesota Department of Health did not accurately report federal expenditures for the Special Supplemental Nutrition Program for Women, Infants, and Children in the state’s Schedule of Expenditures of Financial Awards.

Finding 1

The department incorrectly reported to the Department of Management and Budget the amount of federal expenditures for the Special Supplemental Nutrition Program for Women, Infants, and Children. As a result, the federal expenditures for the program in the state’s Schedule of Expenditures of Financial Awards were overstated by about \$19.5 million. The federal Office of Management and Budget requires states to issue reports on compliance with federal requirements for major federal programs, and to include the Schedule of Expenditures of Financial Awards in that report. The department created a worksheet to calculate the federal expenditures for the program, but the worksheet contained errors, and the department’s controls were not sufficient to identify and correct those errors.

Recommendation

- *The Minnesota Department of Health should strengthen its controls to ensure that it accurately reports federal program expenditures in the State of Minnesota’s Schedule of Expenditures of Financial Awards.*

The Minnesota Department of Health did not always perform financial reviews of local agencies for the Special Supplemental Nutrition Program for Women, Infants, and Children at least once every two years.

Finding 2

The department did not complete monitoring reviews on 9 of the 56 local agencies that participated in the Special Supplemental Nutrition Program for Women, Infants, and Children during fiscal year 2014 within the last two years.

The Code of Federal Regulations states:

*The State agency shall establish an on-going management evaluation system which includes at least the monitoring of local agency operations, the review of local agency financial and participation reports, the development of corrective action plans to resolve Program deficiencies, the monitoring of the implementation of corrective action plans, and on-site visits.... The State agency shall conduct monitoring reviews of each local agency at least once every two years.*⁵

⁵ 7 CFR, sec. 246.19 (2014).

The department did perform management evaluations of local agency operations and eligibility determinations for each of those 9 local agencies within the last two years, but did not perform financial reviews. A financial review is an examination of a local agency's accounting system, documentation supporting expenditures, and requests for reimbursements from program funds. The most recent financial reviews of 5 of those local agencies occurred between August and October 2011; the most recent financial reviews for the other 4 were between June and September 2012. The department did not have an effective method to track financial reviews to ensure that they were completed as required.

Recommendation

- *The Minnesota Department of Health should strengthen its controls to ensure it completes monitoring reviews, including financial reviews of all local agencies at least once every two years.*

Finding 3

The Minnesota Department of Health did not comply with the state's agreement with the U.S. Treasury for the transfer of funds from the federal government for the Special Supplemental Nutrition Program for Women, Infants, and Children.

The cash management agreement between the state and the U.S. Treasury required the department to limit requests of federal funds for the program to reimbursements for actual administrative expenditures and for actual payments to vendors for redeemed food vouchers. The department had the following instances of noncompliance with that agreement:

- The department twice requested federal funds as reimbursement for Special Supplemental Nutrition Program for Women, Infants, and Children administrative expenditures that significantly exceeded actual administrative expenditures. The first excess reimbursement request was in October 2013 and resulted in an excess of about \$2.7 million; the second excess reimbursement request was in June 2014 and resulted in an excess of nearly \$3 million. The department recognized the reimbursement errors within a few weeks after they occurred and took steps that it believed offset the excess balances against future federal reimbursement claims over the following two or three months. However, staff did not recognize that, due to an accounting error, it still had about \$1.2 million of the excess remaining.
 - From July 1, 2013, to December 4, 2013, the department maintained a cash balance ranging from \$269,129 to \$960,892 in its bank account used to pay vendors for redeemed food vouchers. The department eliminated the cash balance in the bank account after it recognized that the practice was not allowed by the agreement.
-

Recommendation

- *The Minnesota Department of Health should strengthen its controls to ensure it complies with the state's agreement with the U.S. Treasury for the transfer of funds from the federal government.*
-

**Appendix A
Major Federal Programs
Minnesota Department of Health
Fiscal Year 2014**

<u>CFDA</u>¹	<u>Program Name</u>	<u>Federal Award Number</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2013IW500342, 2014IW100242, 2014IW100642, 2014IW500342
93.069	Public Health Emergency Preparedness ²	5U90TP000529
93.889	National Bioterrorism Hospital Preparedness ³	5U90TP000529

¹ The Catalog of Federal Domestic Assistance (CFDA) includes unique numbers assigned by the federal government to identify its programs.

² Public Health Emergency Preparedness fiscal year 2013 federal award number is 1U90TP000529.

³ National Bioterrorism Hospital Preparedness fiscal year 2013 federal award number is 1U90TP000529.



Protecting, maintaining and improving the health of all Minnesotans

March 19, 2015

Mr. James R. Nobles
Legislative Auditor
Office of the Legislative Auditor
658 Cedar St. Room 140
Centennial Office Building
St. Paul, MN 55155-1603

Dear Mr. Nobles:

Thank you for the opportunity to respond to the findings and recommendations of the Office of the Legislative Auditor's Federal Compliance Audit for the Minnesota Department of Health for the year ending June 30, 2014.

Finding 1

Recommendation:

The Minnesota Department of Health should strengthen its controls to ensure that it accurately reports federal program expenditures in the State of Minnesota's Schedule of Expenditures of Financial Awards.

Response:

We agree with this recommendation. The department has taken action to document necessary process changes to ensure proper reporting of federal program expenditures. In addition, we will implement a secondary review prior to submitting the final report to Minnesota Management and Budget. We consider this finding resolved.

Finding 2

Recommendation:

The Minnesota Department of Health should strengthen its controls to ensure it completes monitoring reviews, including financial reviews of all local agencies at least once every two years.

Response:

We agree with the recommendation and have already strengthened our oversight procedures by requiring supervisors to review and report quarterly to the section Manager the status of all monitoring and financial reviews. This will assure that we meet federal monitoring requirements.

All nine of the local agencies that did not receive financial reviews within the two year required period were under the oversight of an employee new to the position. Once apprised of the situation, staff promptly scheduled all nine financial reviews and re-assigned additional staff to complete the reviews in a timely manner. We consider this finding resolved.

Finding 3

Recommendation:

The Minnesota Department of Health should strengthen its controls to ensure it complies with the state's agreement with the U.S. Treasury for the transfer of funds from the federal government.

Response:

In response to the first bullet point, we have isolated the incident that caused the account to be overdrawn and will be working with the U.S. Department of Agriculture, Food and Nutrition Services, to issue a refund. We anticipate this finding will be resolved by May 1, 2015.
Person responsible: Sherry Kromschroeder, Director of Financial Services

Regarding the second bullet point, the department completed a risk assessment exercise during the fiscal year and strengthened its internal controls. During the review we discovered a change in the State's U.S. Treasury agreement related to the clearance time technique used to draw funds in the federal ASAP system. The change involved moving from an ACH payment, which required the department to maintain a bank account balance, to a same day wire payment. Under the same day payment method an average daily balance is not necessary, so the department reduced the bank account balance to zero in December 2013. We consider this finding resolved.

Sincerely,



Edward P. Ehlinger, M.D., M.S.P.H.
Commissioner
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