



Department of Health

Federal Compliance Audit

Year Ended June 30, 2016

March 24, 2017
REPORT 17-09

Financial Audit Division

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MINNESOTA

Office of the Legislative Auditor Financial Audit Division

The Financial Audit Division at the Office of the Legislative Auditor (OLA) performs three types of audits of entities within the state's executive and judicial branches:

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OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA • James Nobles, Legislative Auditor

March 24, 2017

Senator Mary Kiffmeyer, Chair
Legislative Audit Commission

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Dr. Edward Ehlinger, Commissioner
Department of Health

This report presents the results of our audit of the Special Supplemental Nutrition Program for Women, Infants, and Children; the Public Health Emergency Preparedness program; and the National Bioterrorism Hospital Preparedness program, which were major federal programs for the State of Minnesota for fiscal year 2016. We conducted this audit as part of our audit of the state's compliance with federal program requirements. This was not a comprehensive audit of the Department of Health.

This audit was conducted by Scott Tjomsland, CPA, CISA (Audit Director); Emily Wiant (Auditor-in-Charge); Natalie Mehlhorn (Senior Auditor); and Kelsey Carlson (Staff Auditor).

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

We audited the Department of Health's use of money it received in fiscal year 2016 through three federal grant programs, including Special Supplemental Nutrition Program for Women, Infants, and Children; Public Health Emergency Preparedness; and National Bioterrorism Hospital Preparedness.

Our primary objectives were: (1) to determine whether the department's use of the federal grant money and administration of the programs complied with federal regulations; and (2) to determine whether the department's controls were adequate to ensure it complied with federal requirements.

For each federal program, we interviewed officials and staff of the Department of Health to understand how the department administered the federal programs and ensured compliance. We analyzed the financial transactions of each program, and, as necessary, tested a sample of those transactions to determine whether the department's internal controls were effective and to ensure the transactions complied with federal requirements.

Conclusion

We concluded that the Department of Health generally complied with most federal grant requirements for its major federal programs for fiscal year 2016. The department also generally had adequate internal controls to ensure compliance with those requirements. However, the department had an internal control weakness and noncompliance with federal requirements, as noted in the finding presented in this report.¹

Audit Finding

- The Department of Health did not have adequate documentation to support some payroll charges to federal programs. (Finding 1, page 7)

¹ We also audited the fiscal year 2015 federal expenditures for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs. This conclusion also applies to those expenditures.



Department of Health

Federal Program Overview

The Department of Health administered three federal programs that we included as part of our annual organization-wide audit of the State of Minnesota's compliance with federal requirements under the federal Single Audit Act.² The objective of the Single Audit is to provide the federal government with assurance about the state's management and use of federal grant money. The audit encompasses both financial and compliance components.

Each year, the federal Office of Management and Budget issues a *Compliance Supplement* to provide specific audit requirements for its largest federal programs, including the ones we audited at the Department of Health. The *Compliance Supplement* identifies important compliance requirements that the federal government expects to be considered as part of our audit. The supplement provides detailed explanations, discussions, and guidance about standard requirements that recipients must comply with when receiving and using such federal grant money.

Table 1, on the next page, identifies the three programs at the Department of Health that we considered major federal programs.³

² *CFR* 200, sec. 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, subpart F, Audit Requirements.

³ We defined a major federal program for the State of Minnesota in accordance with guidance provided by the federal Office of Management and Budget. Based on that guidance, we included in our audit one of the Department of Health's two federal programs whose expenditures exceeded the federal audit threshold for Minnesota of \$30 million. We classified the other large federal program (the Immunization Cooperative Agreements program (CFDA 93.268) with \$51,964,241 in expenditures) as low-risk because it had no findings for the last three years. We replaced that program with two smaller programs (the Public Health Emergency Preparedness (CFDA 93.069) and National Bioterrorism Hospital Preparedness (CFDA 93.889) programs), as shown in Table 1.

Table 1
Major Federal Programs
Administered by the Department of Health
Fiscal Year 2016

CFDA^a	Program Name	Expenditures
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	\$93,873,008
93.069	Public Health Emergency Preparedness ^b	\$11,221,895
93.889	National Bioterrorism Hospital Preparedness ^b	\$ 4,554,262

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

^b We also audited the fiscal year 2015 federal expenditures for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs, which totaled \$11,232,406 and \$2,551,776, respectively.

Source: 2016 Schedule of Expenditures of Federal Award, prepared by the Department of Management and Budget.

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, nonbreastfeeding women up to six months postpartum, infants, and children under age 5 determined to be at nutritional risk.

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 Department of Health complied with federal program requirements in its administration of these federal programs for fiscal year 2016.⁴ 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 We also audited the fiscal year 2015 federal expenditures for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs.

Our audit work included the following testing procedures:

- We identified and tested the department’s internal controls designed to ensure compliance with federal requirements.
- We analyzed expenditure data and tested samples of expenditure transactions, including payroll and other administrative costs to determine if these were allowed by federal requirements.
- We reviewed subgrant agreements with local community health boards and other local entities, and we verified that the department had procedures to ensure subgrantees used the federal funds in compliance with federal regulations.
- We analyzed the timing of the department’s requests for federal grant money to determine compliance with federal cash management requirements.
- We compared various financial reports the department submitted to the federal government to support documentation to determine the accuracy of the reports.
- Finally, we tested compliance with certain federal requirements unique to the Special Supplemental Nutrition Program for Women, Infants, and Children, as instructed by the federal government, referred to as “Special Tests and Provisions” in the *Compliance Supplement*.

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 *Compliance Supplement*.

Conclusion

We concluded that the Department of Health generally complied with most federal grant requirements for its major federal programs for fiscal year 2016. The department also generally had adequate internal controls to ensure compliance with those requirements. However, the department had an internal control weakness and noncompliance with federal requirements, as noted in the finding presented in this report.⁵

⁵ We also audited the fiscal year 2015 federal expenditures for the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs. This conclusion also applies to those expenditures.

The **Finding and Recommendation** section provides more information about the department's noncompliance and internal control weakness.

Other Reporting

We will report this weakness and noncompliance 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.

Finding and Recommendation

The Department of Health did not have adequate documentation to support some payroll charges to federal programs. **Finding 1**

The Department of Health did not always have the required documentation to support some of the payroll charges we tested for the Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557) and the Public Health Emergency Preparedness program (CFDA 93.069).

The federal government requires that charges to federal awards for salaries and wages must, “*Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.*”⁶ Furthermore, federal requirements state, “*Costs of compensation are allowable to the extent that...the total compensation for individual employees...conforms to the established written policy of the non-Federal entity...*”⁷ The department’s established written policy for employees paid from a single federal grant, or from multiple funding sources that have the same purpose and includes at least one federal grant, stated, “*Time worked by such employees will be supported by quarterly certifications. The certification form will be signed by the employee’s supervisor...*”⁸

The department did not have quarterly certifications for selected quarters for 5 of the 29 employees in our sample test.⁹ Department staff told us that certifications were not completed for two of the employees because they left the department before the end of the quarter, and their supervisors only completed certifications for employees still employed at the end of each quarter. For the other three employees, the department was not able to explain why it did not have required certifications on file. Based on the errors in the sample test, we expanded our testing and identified two additional missing quarterly certifications, which the department could not explain.

Without the required certifications, we questioned whether the payroll expenditures were allowable costs of the federal programs. The total questioned costs were about \$81,992 for the Public Health Emergency Preparedness program and about \$17,473 for the Special Supplemental Nutrition Program for Women, Infants, and Children.

⁶ 2 *CFR*, sec. 200.430(i).

⁷ 2 *CFR*, sec. 200.430(a).

⁸ Minnesota Department of Health Policy 115.06, *Federal Time Reporting Requirements*.

⁹ We reviewed the supporting documentation for all payroll costs in fiscal year 2016 for 10 of the 53 employees who worked on Special Supplemental Nutrition Program for Women, Infants, and Children. We reviewed the supporting documentation for a sample of payroll costs in fiscal years 2015 and 2016 for 19 of the 141 employees who worked on the Public Health Emergency Preparedness and National Bioterrorism Hospital Preparedness programs.

Recommendation

- *The Department of Health should improve its control process for federal time reporting to ensure that all required payroll certifications are completed and retained.*
-

**Appendix A
Major Federal Programs
Department of Health
Fiscal Year 2016**

<u>CFDA^a</u>	<u>Program Name</u>	<u>Federal Award Number</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	2014IW500342, 2015IW500342, 2016IW100342, 2016IW100642
93.069	Public Health Emergency Preparedness ^b	5U90TP000529, 3U90TP000529
93.889	National Bioterrorism Hospital Preparedness ^c	5U90TP000529

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

^b Public Health Emergency Preparedness fiscal year 2015 federal award number is 5U90TP000529.

^c National Bioterrorism Hospital Preparedness fiscal year 2015 federal award number is 5U90TP000529.





March 22, 2017

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 finding and recommendation of the Office of the Legislative Auditor's Federal Compliance Audit for the Minnesota Department of Health for the year ending June 30, 2016.

Finding 1

Recommendation:

The Department of Health should improve its control process for federal time reporting to ensure that all required payroll certifications are completed and retained.

Response:

We agree with this recommendation. We will evaluate our current process for receiving, tracking, and filing documents related to federal time reporting to ensure proper documentation is retained. We will update our department policy on federal time reporting to verify it conforms to federal requirements for auditing of these records. Sherry Kromschroeder, Financial Management Director, will be responsible for resolving the finding by August 2017.

Sincerely,

A handwritten signature in black ink that reads "Edward P. Ehlinger". The signature is fluid and cursive, with a long horizontal stroke at the end.

Edward P. Ehlinger, MD, MSPH
Commissioner
P.O. Box 64975
St. Paul, MN 55164-0975



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