

B41096

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

REVIEW REPORT

OF

INDIANA STATE DEPARTMENT OF HEALTH

February 1, 2010 to May 31, 2012



**FILED**  
10/05/2012



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AGENCY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Commissioner	Judith A. Monroe, M.D.	03-07-05 to 03-08-10
	Loren L. Robertson (Interim)	03-09-10 to 03-31-10
	Gregory N. Larkin, M.D.	04-01-10 to 01-13-13



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE INDIANA STATE DEPARTMENT OF HEALTH

We have reviewed the activities related to the receipts, disbursements, and assets of the Indiana State Department of Health for the period of February 1, 2010 to May 31, 2012. Indiana State Department of Health's management is responsible for the receipts, disbursements, and assets.

Our review was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the receipts, disbursements, and assets. Accordingly, we do not express such an opinion.

Financial transactions of this office are included in the scope of our audits of the State of Indiana as reflected in the Indiana Comprehensive Annual Financial Reports. Federal programs are included in the scope of our statewide single audits as reflected in the Statewide Single Audit Reports.

Based on our review, nothing came to our attention that caused us to believe that the activities related to the receipts, disbursements, and assets of the Indiana State Department of Health are not in all material respects in conformity with the criteria set forth in the Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, and applicable laws and regulations except as stated in the review comments.

The Indiana State Department of Health's response to the Review Comments identified in our review is described in the accompanying section of the report entitled Official Response. We did not review the Indiana State Department of Health's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Indiana State Department of Health's management and others within the entity, and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office reviewed.

STATE BOARD OF ACCOUNTS

July 12, 2012

INDIANA STATE DEPARTMENT OF HEALTH  
REVIEW COMMENTS  
MAY 31, 2012

***LATE PAYMENT PENALTY***

Auditor of State accounting records reflect late payment penalties paid to vendors and charged to accounts of the State Department of Health as a result of untimely payment of claims. Total penalties for the fiscal year 2011 were \$63,208.59 and for the current fiscal year through April 30 penalties were \$33,039.91. These penalties are an unnecessary use of public funds.

Indiana Code 5-17-5 requires a state agency to ". . . pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency fails to make timely payment."

Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, 6.4.7.4)

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Organizational Overview)

***ACCOUNTABLE ITEMS NOT RECONCILED TO RECEIPTS***

As stated on our prior report (B37265), our testing of revenue collections revealed deficiencies in the internal control structure regarding reconciliations not being performed of accountable items (i.e., licenses/permits/certificates issued by the Indiana State Department of Health) to collections received. During our current review, we observed that accountable items are still not reconciled to revenues collected.

Each agency, department, institution or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things safeguarding controls over cash and all other assets and all forms of information processing are part of an internal control system. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Organizational Review)

Licenses, permits, goods for sale, invoices, etc., are considered accountable items for which a corresponding deposit must be made. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, 4.3.2)

INDIANA STATE DEPARTMENT OF HEALTH  
REVIEW COMMENTS  
MAY 31, 2012  
(Continued)

***SDO TURNOVER***

The Special Disbursing Officer Fund (SDO) advance for the Department of Health was not turned over, or reimbursed completely, for several months. For the review period of 28 months, the SDO Advance Fund of \$67,000 turned over just 1.7 times.

Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4.10.6)

***EMPLOYEE VS INDEPENDENT CONTRACTOR***

The Indiana State Department of Health (ISDH) entered into personal service contracts to assist the ISDH in carrying out its duties. ISDH designates and controls the amount of hours the individuals are required to work and provides them with computers and the necessary tools to perform their jobs. One or more of the contractors are under the direct supervision of ISDH staff.

Upon review of the criteria, we question whether these workers qualify as employees rather than independent contractors. The ISDH should evaluate the business relationships with these individuals using the Internal Revenue Service (IRS) Publication 15-A, Employer's Supplemental Tax Guide, for the criteria to determine an employer-employee or independent contractor relationship.

According to IRS Publication 15-A, the employer consequences of treating an employee as an independent contractor could result in additional employment tax liabilities.

Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Organizational Overview – Summary of Agency Accounting Responsibilities)

INDIANA STATE DEPARTMENT OF HEALTH  
EXIT CONFERENCE

The contents of this report were discussed on September 10, 2012, with Gregory N. Larkin, M.D., Commissioner; Sean Keefer, Chief of Staff; Eric Miller, Budget Director; and Grant Knies, Controller.

The official response has been made a part of this report and may be found on pages 7 through 10.



Mitchell E. Daniels, Jr.  
Governor

Gregory N. Larkin, M.D., F.A.A.F.P.  
State Health Commissioner

September 20, 2012

Bruce Hartman, State Examiner  
State Board of Accounts  
302 West Washington Street, Room E 418  
Indianapolis, IN 46204-2765

Subject: Indiana State Department of Health (ISDH) Official Response to State Board of Accounts (SBOA) Review Report for the Period February 1, 2010 to May 31, 2012

Dear Mr. Hartman:

Please find attached the Indiana State Department of Health's Official Response to the State Board of Accounts Audit Results and Comments as presented to the Indiana State Department of Health on September 10, 2012. We are pleased that you find our activities to be in all material respects in conformity with applicable requirements, except for those findings noted in the attached official response. In our attached official response, SBOA's findings and comments appear in bold, with ISDH's responses following in plain text.

Please contact me directly at 233-7102 if you have additional comments or questions regarding this response.

Regards,

Eric Miller  
Budget Director

Attachment

**LATE PAYMENT PENALTY**

**Auditor of State Accounting Records reflect late payment penalties paid to vendors and charged to accounts of the State Department of Health as a result of untimely payment of claims. Total penalties for the fiscal year 2011 were \$63,208.59 and for the current fiscal year through April 30 penalties were \$33,039.91. These penalties are an unnecessary use of public funds.**

**Indiana Code 5-17-5 requires a state agency to "...pay a late payment penalty at a rate of one percent (1%) per month on amounts due on written contracts for public works, personal services, goods and services, equipment, and travel whenever the state agency fails to make timely payment."**

**Payment of penalties and interest due to late payments to vendors may be the obligation of the responsible official or employee (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, 6.4.7.4)**

**Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements. (Accounting and Uniform Compliance Guidelines for State and Quasi agencies, Organizational Overview)**

The Indiana State Department of Health (ISDH) agrees with and is fully aware of the \$96,248.50 in late fee penalties incurred for the time period of July 1, 2010 through April 30, 2012. From FY 11 to FY 12, ISDH's late fee penalties decreased by 41.7% to \$36,840. ISDH agrees that these penalties are an unnecessary use of public funds and will continue working diligently to reduce late payment penalties through greater accountability and vigilance over taxpayer dollars spent by our agency.

**SDO TURNOVER**

**The Special Disbursing Officer Fund (SDO) advance for the Department of Health was not turned over, or reimbursed completely, for several months. For the review period of 28 months, the SDO Advance Fund of \$67,000 turned over just 1.7 times.**

**Whenever a SDO fund is established, money is removed from a Treasurer of State bank account, thus, not being invested. Therefore, consideration should be given to the size of the SDO fund. If an agency is not using the total SDO advance within one or two months, the SDO advance is too large and should be reduced. (Accounting and Uniform Compliance Guidelines Manual for State and Quasi Agencies, Chapter 6.4.10.6)**

ISDH agrees that the SDO Advance Fund of \$67,000 should be reduced to a lower amount, so that those funds that are not being utilized can be invested by the Treasurer and earn interest. We have already taken immediate action to reduce the SDO Advance Fund to \$25,000. In the coming months, we will further analyze our SDO cash needs and make adjustments to the SDO advance amount as needed.

#### **EMPLOYEE VS INDEPENDENT CONTRACTOR**

**The Indiana State Department of Health (ISDH) entered into personal service contracts to assist the ISDH in carrying out its duties. ISDH designates and controls the amount of hours the individuals are required to work and provides them with computers and the necessary tools to perform their jobs. One or more of the contractors are under the direct supervision of ISDH staff.**

**Upon review of the criteria, we question whether these workers qualify as employees rather than independent contractors. The ISDH should evaluate the business relationships with these individuals using the Internal Revenue Service (IRS) Publication 15-A, Employer's Supplemental Tax Guide, for the criteria to determine an employer-employee or independent contractor relationship.**

**According to IRS Publication 15-A, the employer consequences of treating an employee as an independent contractor could result in additional employment tax liabilities.**

**Each agency, department, quasi, institution, or office is responsible for compliance with applicable statutes, regulations, contract provisions, state policies, and federal requirements (Accounting and Uniform Compliance Guidelines for State and Quasi Agencies, Organizational Overview – Summary of Agency Accounting Responsibilities)**

ISDH will review IRS Publication 15-A, then we will evaluate the personal service contracts in question, and we will act accordingly. ISDH understand the adverse consequences that can result from treating an employee as an independent contractor.

#### **ACCOUNTABLE ITEMS NOT RECONCILED TO RECEIPTS**

**As stated on our prior report (B37265), our testing of revenue collections revealed deficiencies in the internal control structure regarding reconciliations not being performed of accountable items (i.e., licenses/permits/certificates issued by the Indiana State Department of Health) to collections received. During our current review, we observed that accountable items are still not reconciled to revenues collected.**

**Each agency, department, institution, or office should have internal controls in effect, which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things safeguarding controls over cash**

**and all other assets and all forms of information processing are part of an internal control system (Accounting and Uniform Compliance Guidelines Manual for State Agencies, Organizational Review)**

**Licenses, permits, goods for sale, invoices, etc., are considered accountable items for which a corresponding deposit must be made. (Accounting and Uniform Compliance Guidelines Manual for State Agencies, 4.3.2)**

The revenue collection function for ISDH is performed by the Cashier's Office in the Finance Division. Collections are received from various revenue streams as a result of service activities being performed by various ISDH program areas. The Cashier's Office is the single collection and processing point for all ISDH receivables.

During the audit, it was determined that the Cashier's Office does not perform a regular reconciliation that compares service activities against the funds collected and deposited.

ISDH Finance staff will perform a thorough review of the current processes and then we will meet with staff from the State Treasurer's Office, State Auditor's Office, and State Board of Accounts to determine what changes need to be made to the current processes in place in order to appropriately reconcile accountable items to receipts and invoices.