

North Dakota
Department of Health
BISMARCK, NORTH DAKOTA

Audit Report

For the Biennium Ended
June 30, 2015

ROBERT R. PETERSON
STATE AUDITOR

Office of the State Auditor
Division of State Audit

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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
STATE CAPITOL
600 E. BOULEVARD AVENUE - DEPT. 117
BISMARCK, NORTH DAKOTA 58505

Transmittal Letter

December 28, 2015

The Honorable Jack Dalrymple, Governor
Members of the North Dakota Legislative Assembly
Dr. Terry Dwelle, State Health Officer, North Dakota Department of Health

We are pleased to submit this audit of the North Dakota Department of Health for the biennium ended June 30, 2015. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Michael W. Schmitcke, CPA. Cindi Pedersen, CPA, was the audit manager. Inquiries or comments relating to this audit may be directed to the audit manager by calling (701) 328-2241. We wish to express our appreciation to Dr. Dwelle and his staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Bob Peterson".

Robert R. Peterson
State Auditor

Executive Summary

Introduction

The North Dakota Department of Health is dedicated to ensuring North Dakota is a healthy place to live and that each person has an equal opportunity to enjoy good health. The Department of Health is committed to improving the health status of the people of North Dakota, improving access to and delivery of quality health care, preserving and improving the quality of the environment, promoting a state of emergency readiness and response, and achieving strategic outcomes with available resources.

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies. Those items and the Office of the State Auditor's responses are noted below.

Responses to LAFRC Audit Questions

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the North Dakota Department of Health in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unmodified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

Other than our finding "improve the construction stormwater inspection process" (page 14), there were no indications of a lack of efficiency in financial operations and management of the North Dakota Department of Health.

5. Has action been taken on findings and recommendations included in prior audit reports?

Yes.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a management letter was issued and is included on page 16 of this report, along with management's response.

LAFRC Audit Communications

7. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified or significant unusual transactions.

8. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The North Dakota Department of Health's financial statements do not include any significant accounting estimates.

9. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

10. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

11. *Identify any serious difficulties encountered in performing the audit.*

None.

12. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

13. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

14. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance, Human Resource Management System (HRMS), WICNet System, Inventory Control & Asset Management System (iCAM), and Program Reporting System (PRS) are high-risk information technology systems critical to the North Dakota Department of Health.

Audit Objectives, Scope, and Methodology

Audit Objectives

The objectives of this audit of the North Dakota Department of Health for the biennium ended June 30, 2015 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the highest risk areas of the North Dakota Department of Health's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the North Dakota Department of Health and are they in compliance with these laws?
3. Are there areas of the North Dakota Department of Health's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the North Dakota Department of Health is for the biennium ended June 30, 2015. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The North Dakota Department of Health has operations in the following locations. Each location was included in the audit scope:

- The central office located in the State Capitol building.
- The following divisions are at 2635 East Main – Bismarck, ND:
 - Laboratory Services (Chemistry and Microbiology)
 - Disease Control
 - Medical Examiner
- The following divisions are at 918 East Divide – Bismarck, ND:
 - Environmental Health Section
 - Division of Air Quality
 - Division of Municipal Facilities
 - Division of Waste Management
 - Division of Water Quality
 - Environmental Chief's Office
- The Emergency Preparedness and Response Section is located at 1720 Burlington Drive, Bismarck, ND.

Audit Methodology

To meet the objectives outlined above, we:

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and developed a discussion and analysis of the financial statements.
- Performed detailed analytical procedures including computer-assisted auditing techniques. These procedures were used to identify high-risk transactions and potential problem areas for additional testing.
- Tested internal control and compliance with laws and regulations which included selecting representative samples to determine if controls were operating effectively and to determine if laws were being followed consistently. Non-statistical sampling was used and the results were projected to the population. Where applicable, populations were stratified to ensure that particular groups within a population were adequately represented in the sample, and to improve efficiency by gaining greater control on the composition of the sample.
- Interviewed appropriate agency personnel.
- Queried the ConnectND (PeopleSoft) system. Significant evidence was obtained from ConnectND.
- Observed the North Dakota Department of Health's processes and procedures.
- Performed a detailed review of the Ryan White Part B Grant obtained by the Department including:
 - Performance measures;
 - Application process;
 - Awarding process;
 - Managing performance; and
 - Assessing the results.
- Performed a detailed review of the Pollutant Discharge Elimination System operated by the Department including:
 - Established policies and procedures;
 - Qualifications of staff;
 - Permitting;
 - Inspections;
 - Complaint handling;
 - Enforcement processes; and
 - Management analysis processes.

In aggregate there were no significant limitations or uncertainties related to our overall assessment of the sufficiency and appropriateness of audit evidence.

Discussion and Analysis

The accompanying financial statements have been prepared to present the North Dakota Department of Health's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

For the biennium ended June 30, 2015, operations of the North Dakota Department of Health were primarily supported by federal funding. This is supplemented by appropriations from the state's general fund and fees credited to the agency's operating fund.

Financial Summary

Revenues consisted primarily of federal funds. Other revenues during the audited period included tobacco settlement funds, various rebates, licenses, permits, fines, and fees.

Federal revenue decreased in the second half of the biennium due to the following:

- A decrease in the number of federal projects completed in fiscal year 2015 compared to fiscal year 2014.
- A decrease in participation in the Women, Infants, and Children program (WIC).
- Decreased federal funding for the Public Health Emergency Preparedness program (PHEP), Hospital Preparedness Program (HPP), and Cancer Prevention and Control.
- Timing of federal expenditures.

Revenue from fines also decreased in the second half of the biennium. While enforcement activity has remained fairly constant the fluctuation in fines collected is a combination of the following:

- The severity of the violation.
- The timing of the assessed penalty.
- The repayment schedule requested by the company assessed a fine.

All other revenues remained fairly constant for the North Dakota Department of Health. Total revenues and other sources were \$54,903,015 for the year ended June 30, 2015 as compared to \$63,456,636 for the year ended June 30, 2014.

Expenditures consisted primarily of grants and salaries. Total expenditures and other uses for the North Dakota Department of Health were \$82,514,892 for the year ended June 30, 2015 as compared to \$79,607,276 for the prior year. The increase in expenditures primarily reflected the general salary increases of the department.

Analysis of Significant Variances - Budgeted and Actual Expenditures

The excess of operating expenses appropriation over actual expenditures was the result of contracts not being executed for the following reasons:

- The Department did not receive anticipated grant awards from the Centers of Disease Control and Prevention (Coordinated Chronic Disease Grant) and from the Department of Health and Human Services (Community Transformation Grant).
- The budget was developed based on amounts the Department had anticipated receiving, however, various federal grant awards came in less than budgeted.

The excess appropriation in the grants line item was the result of the following:

- The Colorectal Screening and Follow-up Screening Program did not serve the number of individuals anticipated when the budget was built (program is being revised to increase participation).
- Funds passed through from the Department of Health and obligated to grant recipients were not expended at the level anticipated.
- The Department did not receive an anticipated grant award from the Department of Justice (Grants to Encourage Arrest).
- The budget was developed based on amounts the Department had anticipated receiving, however, various federal grant awards came in less than budgeted.

The remaining amount in the WIC Food Payments line item was the result of the number of participants being less than what was anticipated when the budget was built and the food costs were not at the level anticipated.

Financial Statements

Statement of Revenues and Expenditures

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<u>Revenues and Other Sources:</u>		
Federal Revenue	\$38,570,336	\$46,095,046
WIC/Medication Rebates	3,479,293	3,479,871
Licenses, Permits, and Fees	2,302,160	2,020,590
Private Grants	1,796,751	1,608,407
Air Pollution Construction Permits	1,754,702	1,811,826
Fines	719,804	1,803,550
Water Sample Analysis Fees	639,673	1,049,103
Vital Records – Service Fees	516,279	515,292
Health Facilities Licensing Revenue	172,946	171,906
Other Revenue	124,092	229,678
Transfer from Tobacco Settlement Fund	1,947,410	2,275,638
Other Transfers In	2,879,569	2,395,729
Total Revenues and Other Sources	<u>\$54,903,015</u>	<u>\$63,456,636</u>
<u>Expenditures and Other Uses:</u>		
Salaries and Benefits	\$27,513,718	\$25,795,216
Grants	24,749,503	24,527,217
Food Supplies	9,065,685	9,114,249
Fees- Professional Services	7,257,805	6,791,866
IT – Services/Processing/Equipment	2,784,094	2,386,452
Medicine and Drugs	2,195,855	3,128,090
Travel	1,498,165	1,345,348
Lab/Emergency Supplies	1,188,187	1,171,194
Rent of Building Space	1,090,518	949,154
Repairs	737,457	617,332
Bond Payments	622,516	321,635
Equipment	602,275	585,159
Supply/Material Professional	433,174	298,586
Operating Fees	367,675	449,946
Other Expenditures	1,543,217	1,401,251
Transfers Out	865,048	724,581
Total Expenditures and Other Uses	<u>\$82,514,892</u>	<u>\$79,607,276</u>

Statement of Appropriations

For The Biennium Ended June 30, 2015

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Wages	\$ 54,757,510		\$ 54,757,510	\$ 52,271,688	\$ 2,485,822
Accrued Leave Payments	2,223,289		2,223,289	229,520	1,993,769
Operating Expenses	38,395,014	\$ 720,900	39,115,914	34,109,269	5,006,645
Capital Improvements	2,224,288		2,224,288	2,047,181	177,107
Grants	57,610,729		57,610,729	49,197,269	8,413,460
Tobacco Prevention & Control	5,544,251		5,544,251	5,520,815	23,436
WIC Food Payments	24,659,861		24,659,861	18,005,616	6,654,245
Federal Stimulus Funds - 2009	155,000		155,000	130,682	24,318
Totals	<u>\$185,569,942</u>	<u>\$ 720,900</u>	<u>\$186,290,842</u>	<u>\$161,512,040</u>	<u>\$ 24,778,802</u>
Expenditures by Source:					
General Fund	\$ 46,001,508	\$ 720,900	\$ 46,722,408	\$ 44,574,293	\$ 2,148,115
Other Funds	139,568,434		139,568,434	116,937,747	22,630,687
Totals	<u>\$185,569,942</u>	<u>\$ 720,900</u>	<u>\$186,290,842</u>	<u>\$161,512,040</u>	<u>\$ 24,778,802</u>

Appropriation Adjustments:

The \$720,900 increase to the operating expenses line was authorized by Senate Bill 2023 of the 2015 Legislative Assembly. The money was for the Immunization Program in order to continue to supply vaccines for insured children who receive vaccinations at local public health units and to cover the cost of several current or pending legal actions with the U.S. Environmental Protection Agency.

Expenditures Without Appropriations Of Specific Amounts:

Transfers out of the Abandoned Vehicle Fund have a continuing appropriation authorized by North Dakota Century Code (NDCC) section 39-26-12 (\$345,221 of transfers for this biennium).

The Statewide Conference Fund is nonappropriated in accordance with OMB policy 211 (\$12,534 of expenditures this biennium).

The Organ/Tissue Transplant Fund has a continuing appropriation authorized by NDCC section 23-01-05.1 (\$25,509 of expenditures for this biennium).

The Environmental Quality Restoration Fund has a continuing appropriation authorized by NDCC section 23-31-02 (\$184,600 of expenditures for this biennium).

The Insurance Recoveries Property Fund has a continuing appropriation authorized by NDCC section 54-44.1-09.1 (\$42,265 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2015, we identified the following areas of the North Dakota Department of Health's internal control as being the highest risk:

Internal Controls Subjected to Testing:

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

The criteria used to evaluate internal control is published in the publication *Internal Control – Integrated Framework* from the Committee of Sponsoring Organizations (COSO) of the Treadway Commission.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered necessary based on our assessment of audit risk. We concluded internal control was adequate.

Auditors are required to report deficiencies in internal control that are significant within the context of the objectives of the audit. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect: (1) misstatements in financial or performance information; (2) violations of laws and regulations; or (3) impairments of effectiveness or efficiency of operations, on a timely basis. Considering both qualitative and quantitative factors, we did not identify any significant deficiencies in internal control.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2015, we identified and tested the North Dakota Department of Health's compliance with legislative intent for the following areas we determined to be significant and of higher risk of noncompliance:

- Compliance with appropriations of \$235,732 to establish and administer an autism spectrum disorder database (House Bill 1038, section 5, of the 2013 Legislative Session).
- Compliance with appropriations of \$80,000 from the general fund for family violence services and prevention grants (Senate Bill 2004, section 3, of the 2013 Legislative Session).
- Compliance with appropriations of \$272,310 from the environment and rangeland protection fund including \$50,000 for a North Dakota Stockmen's Association environmental services program grant (Senate Bill 2004, section 4, of the 2013 Legislative Session).
- Compliance with appropriations of \$160,200 from the general fund for recommended follow-up colorectal screenings up to \$1,800 per screening (Senate Bill 2004, section 6, of the 2013 Legislative Session).
- Compliance with the requirement to establish and maintain a comprehensive emergency cardiovascular medical system for the state (House Bill 1175 of the 2013 Legislative Session).
- Compliance with appropriations of \$700,000 from the general fund for the purposes of planning or establishing, or both, a regional public health network (Senate Bill 2030, section 13, of the 2013 Legislative Session).
- Compliance with appropriations of \$100,000 from the general fund for the purpose of providing a grant to an organization to provide mobile dental care services (House Bill 1135, section 1, of the 2013 Legislative Session).
- Compliance with the requirement to make signs required by this section available for download in a printable format on the Department's website (NDCC section 14-02.1-03.4).
- Proper disposition of revenue collected by the department for health facilities (NDCC section 23-09.3-05.1).
- Proper disposition of revenue collected by the department for wastewater operator certifications (NDCC section 23-26-06).
- Proper disposition of revenue collected by the department for emergency medical services operation licenses (NDCC section 23-27-03).
- Proper use of the following legally restricted funds:
 - Abandoned Motor Vehicle Disposal Fund
 - Insurance Tax Distribution Fund
 - Organ/Tissue Transplant Fund
 - Quality Restorations Fund
 - EHPL Administrations Fund
 - ND Health Care Trust Fund
 - Community Health Trust Fund
 - Wastewater Operators Certification Fund
 - Environment and Rangeland Protection Fund
 - Children's Trust Fund
 - Domestic Violence Prevention Fund

- Proper use of the State Treasurer (State Constitution, article X, section 12).
- Compliance with appropriations and related transfers (2013 North Dakota Session Laws chapter 35).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record-keeping, surplus property, and lease analysis requirements.
- Compliance with payroll-related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.
- Proper use of the Bank of North Dakota as a processing depository for credit card activity (NDCC section 54-06-08.2).
- Proper authorization of all funds used by the Health Department.

The criteria used to evaluate legislative intent are the laws as published in the *North Dakota Century Code* and the *North Dakota Session Laws*.

Government Auditing Standards require auditors to report all instances of fraud and illegal acts unless they are inconsequential within the context of the audit objectives. Further, auditors are required to report significant violations of provisions of contracts or grant agreements, and significant abuse that has occurred or is likely to have occurred.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above.

Operations

Our audit of the North Dakota Department of Health identified the following area of potential improvement to operations, as expressed by our operational objective:

- Is the North Dakota Pollutant Discharge Elimination System (NDPDES) related to construction stormwater permits implemented by the North Dakota Department of Health's Division of Water Quality operating efficiently and effectively and in compliance with significant high-risk laws?

Improve The Construction Stormwater Inspection Process (Finding 15-1)

Condition:

Improvements are needed to the Department of Health's Division of Water Quality Construction Stormwater Section's inspection process for permitted entities. The following weaknesses were identified:

- Lack of documented policies and procedures regarding the inspection process;
- Lack of a documented risk-based approach for the inspection process; and
- Inadequate review of completed inspections, especially inspections completed by new employees.

Criteria:

Studies prepared by federal and national organizations including the Centers for Disease Control & Prevention, the National State Auditor's Association, and Jacobs & Associates – International Consultants in Regulatory Reform, focus attention on the importance of identifying and evaluating best practices in executing a state regulatory program to improve regulatory effectiveness in carrying out public policies such as protecting health, safety, consumers, and the environment.

Cause:

The Division does not have adequate policies and procedures in place to ensure the inspection process is handled appropriately.

Effect or Potential Effect:

The state's water quality could be at risk if inspections are not conducted properly.

Operational Improvement:

We recommend the Department of Health's Division of Water Quality implement an inspection process to ensure all inspections are handled appropriately. Specifically the Division should:

- Develop documented policies and procedures for each step of the inspection process;
- Document the risk based approach for the inspection process; and
- Create a formal process for reviewing completed inspections.

North Dakota Department of Health Response:

The Department agrees. Written policies and procedures are under development and action is being taken to strengthen the inspection process.

Management Letter (Informal Recommendations)

December 28, 2015

Terry Dwelle, MD
State Health Officer
North Dakota Department of Health
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Dr. Dwelle:

We have performed an audit of the North Dakota Department of Health for the biennium ended June 30, 2015, and have issued a report thereon. As part of our audit, we gained an understanding of the North Dakota Department of Health's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status.

The following present our informal recommendations.

OPERATIONAL IMPROVEMENTS

Informal Recommendation 15-1: We recommend the Department of Health's Division of Water Quality incorporate the use of information technology into the inspection process.

Informal Recommendation 15-2: We recommend the Department of Health's Division of Water Quality implement a permitting process that ensures notice of intents (NOIs) are reviewed prior to the coverage becoming effective.

Informal Recommendation 15-3: We recommend the Department of Health's Division of Water Quality Implement a complaint process to ensure all complaints are handled appropriately. Specifically the Division should ensure:

- Policies and procedures are established and documented for all areas of the complaint process; and
- The Division's website includes information for the public on the complaint handling process.

Informal Recommendation 15-4: We recommend the Department of Health's Division of Water Quality develop a process that makes information on enforcement actions and inspection results readily available to the public through the Department's website.

Informal Recommendation 15-5: We recommend the Department of Health's Ryan White HIV/AIDS Part B grant program develop a grant application that applicants can fill out to become a subgrantee in the grant program.

Informal Recommendation 15-6: We recommend the Department of Health's Ryan White HIV/AIDS Part B grant establish documented policies and procedures for the following areas:

- Distribution of grant funds to the local health units;
- Expectations from local health units regarding the programs expected outcomes and reporting;
- Consequences for local health unit noncompliance of the program;
- The site reviews of the grant recipients including follow-up procedures; and
- Tracking of compliance related issues.

Management of the North Dakota Department of Health agreed with these recommendations.

I encourage you to call me or an audit manager at 328-2241 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,



Michael W. Schmitcke, CPA
Auditor in-charge

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