

Audit Report

Kalamazoo County Health and Community Services Department
WIC Program

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review Section
September 2014



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

NICK LYON
DIRECTOR

September 23, 2014

Lynne D. Norman, BSN, MPH, Acting Health Officer
Kalamazoo County Health and Community Services
3299 Gull Road
Nazareth, MI 49074-0042

Dear Ms. Norman:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Kalamazoo County Health and Community Services WIC Program for the period October 1, 2012 through September 30, 2013.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and Corrective Action Plan. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plan includes the agency's response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

Enclosure

cc: Stan Bien, Director, WIC Division
Pam Myers, Director, Office of Audit

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DESCRIPTION OF AGENCY

The Kalamazoo County Health and Community Services Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Kalamazoo County, and the administrative office is located in Nazareth, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Kalamazoo County. The Health Department provides community health program services to the residents of Kalamazoo County. These services include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Children's Special Health Care Services, Breast and Cervical Cancer Control, Tobacco Reduction, Family Planning, Maternal and Child Health, Childhood Lead, Medicaid Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, and Women Infants and Children (WIC) Supplemental Food Program.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) provides the Health Department with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the fiscal period October 1, 2012 to September 30, 2013. Our review procedures included the following:

- Reviewed the most recent Kalamazoo County Single Audit report for any WIC Program concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.

Our audit did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

INTERNAL CONTROLS

Objective 1: To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted an exception regarding two County Internal Service Funds (ISF's) that had working capital reserves that exceeded the limit established by OMB Circular A-87 (Finding #1).

Finding

1. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Kalamazoo County Internal Service Funds had working capital reserves that exceeded the allowable amounts established by OMB Circular A-87 as of December 31, 2012.

Kalamazoo County charges most departments (including the Health and Community Services Department) for numerous expenses using internal service funds. The funds are used to finance the cost of providing numerous services for their departments. Based on the December 31, 2012 financial statements, the County had accumulated excess balances for two of their internal service funds.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix C, Sections G. 3. and G. 4. require comparisons of the charges to the actual allowable costs, and adjustments by one of several methods. Additionally, OMB Circular A-87, Appendix C, Section G. 2., allows for the establishment and maintenance of a reasonable level of working capital reserves for internal service funds. According to OMB Circular A-87, a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable.

According to Kalamazoo County's Combining Statement of Revenues, Expenses and Changes in Net Position for the Year Ended December 31, 2012, cash expenses were \$20,865,343 for the Employee Benefits Fund and \$599,516 for the Technology Fund. The 60 day cash expenditure limit is \$3,477,557 for the Employee Benefits Fund and \$99,919 for the Technology Fund. The net position as of December 31, 2012 (after allowed adjustments) is \$5,164,412 for the Employee Benefits Fund and \$850,297 for the Technology Fund. Accordingly, the working capital reserves exceeded the allowable amounts by \$1,686,855 for the Employee Benefits fund and \$750,378 for the Technology fund. Reductions are needed to achieve compliance with OMB Circular A-87.

Recommendation

We recommend that Kalamazoo County devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2016 by either cash refunds or adjustments to future billing rates/allocations.

MDCH SHARE OF COSTS

Objective 3: To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligation under the WIC Program for fiscal year ended September 30, 2013, is \$524,149. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Kalamazoo County Health & Community Services Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$524,149	\$524,149 ¹	\$0	\$524,149
Fees and Collections – 3 rd Party	\$200	\$65	\$0	\$65
Local Non-ELPHS	\$7,000	\$0	\$0	\$0
Local and Other Funds	\$54,284	\$20,417	(\$1,331)	\$19,086
TOTAL REVENUES	\$585,633	\$544,631	(\$1,331)	\$543,300
EXPENDITURES:				
Salary and Wages	\$300,300	\$272,097	\$0	\$272,097
Fringe Benefits	\$109,600	\$98,028	\$0	\$98,028
Contractual	\$0	\$0	\$0	\$0
Supplies	\$14,700	\$10,235	\$0	\$10,235
Travel	\$2,700	\$2,114	\$0	\$2,114
Communications	\$10,500	\$12,282	\$0	\$12,282
County Central Service Cost	\$89,235	\$89,235	\$0	\$89,235
Space Cost	\$39,000	\$42,053	\$0	\$42,053
Other Expense	\$3,149	\$3,288	\$0	\$3,288
Indirect Cost	\$0	\$0	\$0	\$0
Other Cost Distribution	\$16,449	\$15,298	(\$1,331) ²	\$13,967
TOTAL EXPENDITURES	\$585,633	\$544,631	(\$1,331)	\$543,300

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Indirect costs were overstated due to calculation used for early WIC FSR filing. No impact on MDCH funding.

Corrective Action Plan

Finding Number: 1

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Finding: Internal Service Fund Working Capital Reserves Exceed Allowable Amounts
Kalamazoo County Internal Service Funds had working capital reserves that exceeded the allowable amounts established by OMB Circular A-87 as of December 31, 2012.

Recommendation: Devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2016 by either cash refunds or adjustments to future billing rates/allocations.

Comments: The County of Kalamazoo recognizes that two of our internal service funds had working capital reserves that exceeded the allowable amounts established by OMB Circular A-87.

Corrective Action: *Employee Benefit Fund:* This fund is used to account for all employee benefits and is self-funded health, dental, prescription, unemployment, and workers compensation costs. The working capital is continually being monitored and adjustments are made to the rate structure as necessary. In 2013, the expenditures increased and the working capital was reduced by \$200,000. The 2014 projections indicate that the working capital will be at an appropriate level.

Technology Fund: Beginning in 2009, the County began working to better structure this fund by including salaries as applicable and adjusting the rates downward. The retained earnings have decreased significantly from the previous years. In 2014, the County is planning to complete 4th quarter analysis of the excess working capital and adjust the rates before the end

of the year. These changes will carry into 2015 as necessary. The County is also planning to move forward with capital expenditures of approximately \$750,000 over 2014, 2015, and 2016 as part of technology changes and delayed implementation due to staffing shortages in the Information Systems Department.

**Anticipated
Completion Date:** 9/30/2016

MDCH Response: None