

# Audit Report

## **Saginaw County Health Department Family Planning Program**

October 1, 2010 – September 30, 2011



Office of Audit  
Quality Assurance and Review Section  
October 2012



RICK SNYDER  
GOVERNOR

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

JAMES K. HAVEMAN  
DIRECTOR

October 31, 2012

John D. McKellar, M.P.A.  
Health Officer  
Saginaw County Department of Public Health  
1600 N. Michigan Avenue  
Saginaw, Michigan 48602

Dear Mr. McKellar:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Family Planning Program for the period October 1, 2010 through September 30, 2011.

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; Corrective Action Plan; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plan includes the agency's response to the finding and recommendation, and the Office of Audit's response to those comments. The Comments and Recommendations section includes areas where we believe there are opportunities for the agency to further strengthen internal controls or to increase operating efficiencies.

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: Paulette Dobyne Dunbar, Manager, Division of Family and Community Health  
Jeanette Lightning, Manager, Reproductive Health Unit  
Pam Myers, Director, Office of Audit  
Keith Rubley, Auditor, Office of Audit  
Steve Utter, Financial Analyst, Division of Family and Community Health

# TABLE OF CONTENTS

	Page
Description of Agency .....	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology .....	2
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u> .....	2
<u>Financial Reporting</u> .....	2
1. Internal Service Fund Working Capital Reserves Exceed Allowable Amount .....	3
<u>MDCH Share of Costs</u> .....	4
Statement of MDCH Grant Program Revenues and Expenditures .....	5
Corrective Action Plan.....	6
Comments & Recommendations .....	8

## **DESCRIPTION OF AGENCY**

The Saginaw County Department of Public Health (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Saginaw County, and the administrative office is located in Saginaw, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Saginaw County. The Health Department provides community health program services to the residents of Saginaw County. These service programs 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, Childhood Lead, Medicaid Outreach, Maternal & Infant Health, Children's Special Health Care Services Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, Family Planning, Tobacco Reduction and Women Infants and Children 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.

The Family Planning Program was funded by MDCH Grant Funds, First and Third Party Fees and Collections, Local Funds, and other revenue. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog number 93.217 and is 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 Family Planning Program internal controls and financial reporting, and to determine the MDCH share of Family Planning 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 Family Planning Program.
2. To assess the Health Department's effectiveness in reporting their Family Planning 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 Family Planning 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, 2010 to September 30, 2011. Our review procedures included the following:

- Reviewed the most recent Saginaw County Single Audit report for any Family Planning Program concerns.
- Completed the internal control questionnaire.
- Reconciled the Family Planning 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.
- Reviewed Medical Supply inventory controls.
- Reviewed billing and collection of fees and collection of donations.

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 Family Planning Program.

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

### FINANCIAL REPORTING

**Objective 2:** To assess the Health Department's effectiveness in reporting their Family Planning 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 its Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted one exception regarding the internal service fund for information systems (Finding 1).

## **Finding**

### **1. Internal Service Fund Working Capital Reserves Exceed Allowable Amount**

Saginaw County's Information Systems and Services Internal Service Fund (Fund 636) had a working capital reserve that exceeded the allowable amount at September 30, 2011 according to OMB Circular A-87.

Saginaw County charges most Saginaw County Departments (including the Health Department) for information systems and services based on budgeted costs and workstation counts. The County places the funds received from the County Departments in an Information Systems and Services Internal Service Fund (Fund 636). The funds are used to finance the cost of providing data processing functions for County Departments.

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 reserve 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 Saginaw County's Combining Statement of Revenues, Expenses and Changes in Fund Net Assets for the Year Ended September 30, 2011, cash expenses were \$1,554,708 for Fund 636, which equates to a 60-day requirement of \$259,118. However, as of September 30, 2011, Saginaw County's Fund 636 had a working capital reserve of \$466,492. Accordingly, the working capital reserve exceeds the allowable amount by \$207,374.

While we recognize that retained earnings in Fund 636 have declined from \$936,879 at Year Ended September 30, 2003 to \$539,665 at Year Ended September 30, 2011 as a result of the cost of providing the data processing functions exceeding the charges to the County Departments over the 8-year period, the working capital reserves exceed the allowable amount, and further reductions are needed to achieve compliance with OMB Circular A-87.

## **Recommendation**

We recommend that Saginaw County devise a plan to ensure the Information Systems and Services Internal Service Fund (Fund 636) working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2013 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 Family Planning 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 Family Planning Program for fiscal year ended September 30, 2011, is \$183,940. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning grant program funding.

**Saginaw County Health Department  
Family Planning Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/10 - 9/30/11**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$183,940	\$183,940 <sup>1</sup>	\$0	\$183,940
Fees 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$71,150	\$42,659	\$1 <sup>2</sup>	\$42,660
Fees & Collections - 3 <sup>rd</sup> Party	\$290,000	\$278,445	\$0	\$278,445
MCH Funding	\$197,324	\$197,324	\$0	\$197,324
Fed Cost Based Reimbursement	\$254,486	\$53,410	\$267 <sup>2</sup>	\$53,677
Local Funds	\$0	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	<b>\$996,900</b>	<b>\$755,778</b>	<b>\$268</b>	<b>\$756,046</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$321,626	\$266,317	\$222 <sup>2</sup>	\$266,539
Fringe Benefits	\$224,797	\$170,723	\$46 <sup>2</sup>	\$170,769
Supplies	\$215,600	\$132,129	\$0	\$132,129
Travel	\$2,800	\$1,126	\$0	\$1,126
Communications	\$2,500	\$1,591	\$0	\$1,591
Admin Overhead	\$148,299	\$120,186	\$0	\$120,186
Other Expense	\$52,718	\$35,146	\$0	\$35,146
County/City Central Services	\$0	\$0	\$0	\$0
Space Cost	\$28,560	\$28,560	\$0	\$28,560
<b>TOTAL EXPENDITURES</b>	<b>\$996,900</b>	<b>\$755,778</b>	<b>\$268</b>	<b>\$756,046</b>

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.

<sup>2</sup> Minor reconciling differences with general ledger.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Internal Service Fund Working Capital Reserves Exceed Allowable Amount  
Saginaw County's Information Systems and Services Internal Service Fund (Fund 636) had a working capital reserve that exceeded the allowable amount at September 30, 2011 according to OMB Circular A-87.

**Recommendation:** Devise a plan to ensure the Information Systems and Services Internal Service Fund (Fund 636) working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2013 by either cash refunds or adjustments to future billing rates/allocations.

**Health Department  
Comments:**

Saginaw County has been operating under the premise that the cost allocation plan and working capital reserves have been done accurately with approval from the State of Michigan Office of Child Support [an office within the Michigan Department of Human Services (MDHS)] to allow an adjustment in working capital reserves by the FYE 2003 retained earnings balance. In doing so, a negative working capital reserves was calculated by Saginaw County for FYE 2010. Saginaw County is unsure on the discrepancy in the calculation method used between the MDHS Office of Child Support and the MDCH Office of Audit. However, Saginaw County fully intends to comply with the recommendation as calculated by the MDCH Office of Audit.

**Corrective Action:** Saginaw County budgeted to use \$300,000 in reserves from the ISS Internal Service Fund for FYE 2012 to reduce the working capital reserves, but will likely not use the entire \$300,000. However, Saginaw

County is fairly confident that after FYE 2012 closing, the working capital reserve will be within the allowable 60-day limit.

**Anticipated  
Completion Date:** FYE 2013

**MDCH Response:** MDCH Office of Audit met with representatives of MDHS and found that MDHS had in fact allowed for an adjustment in the working capital reserve calculation based on the FYE 2003 retained earnings balance. However, according to MDHS, the adjustment was supposed to be reduced by operating losses in the Fund. Accordingly, based on the losses in FYEs 2004, 2005, and 2006, the adjustment should be \$539,910 rather than \$936,879. Regardless, MDCH does not recognize such an adjustment as OMB Circular A-87 only permits a working capital reserve of up to 60 days cash expenses, and Saginaw County has exceeded the limit.

## **Comments and Recommendations**

### **1. Approval Signatures and Dates Needed on Support for Direct Expenditures**

The Health Department is required to comply with the Code of Federal Regulations when administering Federal grants. According to the Code of Federal Regulations, “Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets. Grantees and sub-grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.” Once the Health Department receives an invoice from a vendor, a copy is made. The Finance Director signs the copy and sends it to the county central office for storage. The original is kept at the Health Department, but not signed showing approval. We recommend that the Health Department signs the original invoice for approval so that the Health Department has on record that the expense was approved.

**Management Response:** The Health Department agrees with this recommendation. The payment vouchers will be signed before they are scanned.