

# Audit Report

## **Oakland County Health Department WIC Program**

October 1, 2011 – September 30, 2012



Office of Audit  
Quality Assurance and Review Section  
January 2014



RICK SNYDER  
GOVERNOR

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

JAMES K. HAVEMAN  
DIRECTOR

January 13, 2014

Kathy Forzley, RS, MPA, Health Officer/Manager  
Oakland County Health Division  
1200 N. Telegraph Rd.  
Pontiac, MI 48341-0432

Dear Ms. Forzley:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC Program for the period October 1, 2011 through September 30, 2012.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of MDCH Grant Program Revenues and Expenditures; and Corrective Action Plans. The conclusions and findings are organized by audit objective. The Corrective Action Plans include the agency's paraphrased response to the Preliminary Analysis and the Office of Audit's response to those comments where necessary.

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: Pam Myers, Director, Office of Audit  
Stan Bien, Director, WIC Program  
Mike Gribbin, Senior Auditor, Office of Audit

# 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>	
Internal Controls .....	2
Financial Reporting.....	2
1. Allocation Percentage Not Based On Current Year Activity .....	3
2. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts.....	3
MDCH Share of Costs .....	4
Statement of MDCH Grant Program Revenues and Expenditures - WIC.....	5
Statement of MDCH Grant Program Revenues and Expenditures – WIC Breastfeeding.....	6
Corrective Action Plans .....	7

## **DESCRIPTION OF AGENCY**

The Oakland County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Oakland County, and the administrative office is located in Pontiac, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Oakland County. The Health Department provides community health program services to the residents of Oakland County. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Child Lead Services, Maternal/Infant Support, Vision Screening, Hearing Screening, Immunizations, TB Control, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS Prevention, Medicaid Outreach, Children's Special Health Care Services, Bioterrorism/Emergency Preparedness, Substance Abuse Prevention and Treatment, 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, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Oakland 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, indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed other costs for proper reporting and compliance with Federal requirements.

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 generally effective in establishing and implementing internal controls over the WIC Program.

### 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 generally reported its WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted two exceptions: allocations not based on current year activity (Finding 1); and internal service fund working capital reserves exceed the amounts allowed by Federal regulation (Finding 2).

## **Finding**

### **1. Allocation Percentage Not Based On Current Year Activity**

The Health Department used prior year information in allocating their Community Health Promotion and Intervention Services (CHPIS) indirect cost pool to benefitting programs.

The Health Department's contract with MDCH (Part II, Section III., Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). According to Appendix A of 2 CFR Part 225:

- C.3.a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*
- F.1. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.*

The allocation percentage of 1.41% was based on the salaries and fringes from the previous fiscal year. Based on current year information, the allocation percentage should have been 1.65%. An allocation based on prior year information does not result in an allocation in accordance with relative benefits received as required by OMB Circular A-87. Using prior year information resulted in an understatement of \$3,537 in overhead expenses. This will not affect funding since the Health Department has used all of their MDCH funding.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that all overhead rate calculations are based on current year information to ensure allocations are made in accordance with relative benefits received.

## **Finding**

### **2. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts**

Oakland County's Facilities, Fringe Benefits, Telephone, and Building and Liability Insurance Internal Service Funds had working capital reserves that exceeded the allowable amounts at September 30, 2012 according to OMB Circular A-87.

Oakland County charges most Oakland County Departments (including the Health Department) for space, information technology, motor pool, telephone, building and liability insurance, and fringe benefits. The County places the funds received from the County Departments into various internal service funds (ISFs). The funds are used to finance the cost of providing various services 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.

Maximus, an external contractor of Oakland County, reported that the Facilities, Fringe Benefits, Telephone, and Building and Liability Insurance ISFs exceeded the allowable reserves and recommended the County monitor the funds to ensure the reserve levels are maintained within acceptable limits. According to the 2012 Maximus Cost Allocation Plan, the excess reserves for the ISFs previously mentioned were:

Facilities .....	\$3,048,429
Fringe Benefits.....	\$10,152,219
Telephone.....	\$197,963
Building and Liability Insurance .....	\$1,116,376

Regarding the excess balance for the Facilities ISF, the County made a \$1.6 million adjustment in 2012 to offset a portion of space expense due to the excess ISF balance. This offset a portion of the excess reserve balance. However, the County still has a reserve balance that exceeds the allowable amount. The County did not make similar adjustments to the other ISFs for their excessive balances.

**Recommendation**

We recommend that Oakland County devise a plan to ensure that all internal service fund working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2015 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 is \$2,525,939 and under the WIC Breastfeeding Program is \$73,889 for fiscal year ended September 30, 2012. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Oakland County Health Department  
WIC Supplemental Food Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/11 - 9/30/12**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$2,525,939	\$2,525,939 <sup>1</sup>	\$0	\$2,525,939
Fees and Collections – 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$12,943	\$13,053	\$0	\$13,053
Local and Other Funds	\$328,599	\$150,069	\$3,537	\$153,606
<b>TOTAL REVENUES</b>	<b>\$2,867,481</b>	<b>\$2,689,061</b>	<b>\$3,537</b>	<b>\$2,692,598</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$1,016,921	\$970,509	\$0	\$970,509
Fringe Benefits	\$738,891	\$680,533	\$0	\$680,533
Equipment	\$0	\$0	\$0	\$0
Contractual	\$444,366	\$417,652	\$0	\$417,652
Supplies	\$43,472	\$36,436	\$0	\$36,436
Travel	\$7,000	\$6,418	\$0	\$6,418
Communications	\$14,000	\$11,550	\$0	\$11,550
Space Cost	\$103,545	\$98,906	\$0	\$98,906
Other Expense	\$16,522	\$13,478	\$0	\$13,478
Indirect Cost	\$154,165	\$147,129	\$0	\$147,129
Other Distributions	\$328,599	\$306,450	\$3,537 <sup>2</sup>	\$309,987
<b>TOTAL EXPENDITURES</b>	<b>\$2,867,481</b>	<b>\$2,689,061</b>	<b>\$3,537</b>	<b>\$2,692,598</b>

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

<sup>2</sup> Adjust CHPIS Allocation to Reflect Actual Current Year Expenses (Finding #1).

**Oakland County Health Department  
WIC Breastfeeding/Peer Counselor Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/11 - 9/30/12**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$73,889	\$73,889 <sup>1</sup>	\$0	\$73,889
Fees and Collections – 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$2,217	\$1,955	\$0	\$1,955
Local and Other Funds	\$9,070	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	<b>\$85,176</b>	<b>\$75,844</b>	<b>\$0</b>	<b>\$75,844</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$0	\$0	\$0	\$0
Fringe Benefits	\$0	\$0	\$0	\$0
Equipment	\$0	\$0	\$0	\$0
Contractual	\$76,106	\$67,729	\$0	\$67,729
Supplies	\$0	\$0	\$0	\$0
Travel	\$0	\$0	\$0	\$0
Communications	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$0	\$0	\$0	\$0
Indirect Cost	\$0	\$0	\$0	\$0
Other Distributions	\$9,070	\$8,115	\$0	\$8,115
<b>TOTAL EXPENDITURES</b>	<b>\$85,176</b>	<b>\$75,844</b>	<b>\$0</b>	<b>\$75,844</b>

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

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Allocation Percentage Not Based On Current Year Activity

The Health Department used prior year information in allocating their Community Health Promotion and Intervention Services (CHPIS) indirect cost pool to benefitting programs.

**Recommendation:** Implement policies and procedures to ensure that all overhead rate calculations are based on current year information to ensure allocations are made in accordance with relative benefits received.

**Comments:** The Health Department does not agree with this finding. The Health Department maintains that all costs allocated were in compliance with OMB Circular A-87. The CHPIS allocation percentage was based on actual activity reports from the previous fiscal year. Because these indirect costs cannot be readily assigned to a cost objective without effort disproportionate to the results achieved, we have established a reasonable distribution method that is a generally accepted practice. The difference between the prior year and current year percentage is immaterial. The percentage applied produced an equitable result for the grant in consideration of the relative benefits derived.

**Corrective Action:** None

**Anticipated  
Completion Date:** N/A

**MDCH Response:** While immaterial for the audit period, this methodology could result in a material difference in a future year. Using prior year data for cost distributions does not accurately reflect current year activity and therefore does not ensure that expenses are allocated according to the relative benefits received. The allocation percentage should be updated quarterly to ensure that indirect expenses are allocated based on current activity.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Oakland County's Facilities, Fringe Benefits, Telephone, and Building and Liability Insurance Internal Service Funds had working capital reserves that exceeded the allowable amounts at September 30, 2012 according to OMB Circular A-87.

**Recommendation:** Devise a plan to ensure that all internal service fund working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2015 by either cash refunds or adjustments to future billing rates/allocations.

**Comments:** The nature of the Fringe Benefit Fund and the Building and Liability Insurance Fund does not allow them to easily fit under A-87 criteria. Specifically, because the County is self-insured for active employee health care, retirement and liability insurance, these funds require larger balances in order to cover the County in the event of catastrophic events. For example, should grant employed County employees require expensive medical care, the Fringe Benefit Fund must cover these expenses, not the grant nor the County General Fund.

**Corrective Action:** The County continues to monitor the health of the ISFs and make appropriate adjustments. Charged rates for the funds in question were reduced beginning October 1, 2013, the start of FY 2014. Rate reductions and look-back adjustments are contemplated for the Fringe Benefit Fund and FM&O Fund.

**Anticipated Completion Date:** Ongoing