



STATE OF MICHIGAN  
DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

GRETCHEN WHITMER  
GOVERNOR

ROBERT GORDON  
DIRECTOR

October 7, 2019

Ms. Jean Ingersoll, Executive Director of Public Health  
Detroit Health Department  
3245 E. Jefferson  
Detroit, Michigan 48207

Dear Ms. Ingersoll:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Detroit Health Department Ryan White HIV/AIDS Program (RWHAP) Part B Minority Aids Initiative for fiscal year ended September 30, 2017 and the fiscal year ended September 30, 2018.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings, and Recommendations; Statements of Grant Program Revenues and Expenditures; and Corrective Action Plan. The Corrective Action Plan includes the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on the MDHHS website at:  
[https://www.michigan.gov/mdhhs/0,5885,7-339-73970\\_43164-151236--,00.html](https://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html)

Thank you for the cooperation extended throughout this audit.

Sincerely,

A handwritten signature in black ink that reads "Shannah M. Havens".

Shannah M. Havens, CPA, MBA  
Audit Section Manager  
Public Health and Community Services Programs Section  
Audit Division

Attachment

cc: Debra Hallenbeck, Director, Audit Division  
Bryce Wooton, Senior Auditor, Public Health and Community Services Program Section  
Joseph Mutebi, Supervisory Accountant III, Detroit Health Department  
Twanisha Glass, Operations Manager, Detroit Health Department  
Angelique Rodriguez-Edge, Director of Operations, Detroit Health Department

# Audit Report

City of Detroit Health Department

Ryan White Part B

October 1, 2016 – September 30, 2018



Bureau of Audit

Audit Division

October 2019

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## **DESCRIPTION OF AGENCY**

The City of Detroit Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is accounted for in the Health Activity of the City of Detroit's General Fund. The Health Department operates under the legal supervision and control of the Mayor and City Council, with divided powers and duties as provided by law and the city charter. The Health Department provides public health services to the residents of Detroit. The Health Department's mission is to work in partnership with Detroiters to protect and promote their health, well-being, safety and resilience; and to respond to every public health need with exceptional leadership, policies, programs and services.

The Health Department contracted with the Southeastern Michigan Health Association (SEMHA) to provide fiduciary services that consist of fiscal management services and personnel administration for the majority of the Health Department's public health programs. SEMHA prepares payrolls and vouchers for reimbursement and provides monthly Financial Status Reports (FSRs) to the Health Department based on spending and allocations that are approved by the Health Department. The Health Department then reports the monthly FSR amounts from SEMHA (that include a 2.75% administrative fee) as contractual costs to the Michigan Department of Health and Human Services (MDHHS).

## **FUNDING METHODOLOGY**

The Health Department's Ryan White HIV/AIDS Program (RWHAP) Part B Minority Aids Initiative (MAI) is funded from a grant program from the Michigan Department of Health and Human Services (MDHHS). MDHHS provided the Health Department with monthly grant funding, based on Financial Status Reports in accordance with the terms and conditions of the grant agreement and budget. Grant Funding from MDHHS for the RWHAP Part B MAI is Federal funding under Federal catalog number 93.917.

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the Health Department's financial reporting and to determine the MDHHS shares of cost according to the agreements, and program standards and regulations. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, program standards and generally accepted accounting principles.
2. To determine the MDHHS shares of cost in accordance with MDHHS requirements and the agreements, Federal standards and program standards, 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, 2016 to September 30, 2018. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit and Financial Statement Audit reports for any related Program concerns.
- Reviewed the completed Fiscal Questionnaire.
- Reconciled the RWHAP Part B Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance and adherence to policy and approval procedures.
- Reviewed for equipment purchases over \$5,000.
- 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

### FINANCIAL REPORTING

**Objective 1:** To assess the Health Department's effectiveness and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, program standards, and generally accepted accounting principles.

**Conclusion:** The Health Department was generally effective and accurate in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, and generally accepted accounting principles. However, we identified the following exception: Non-compliant indirect cost budgeting and reporting (Finding 1).

#### Finding

##### 1. Non-Compliant Indirect Cost Budgeting and Reporting

<b>Program Title</b>	<b>Ryan White HIV/AIDS Program Part B</b>
Federal Agency	U.S. Department of Health and Human Services
Federal Sub-Tier	Health Resources and Services Administration
Federal Program Title	HIV Care Formula Grants
CFDA Number	93.917
Amount to be Returned	\$-0-

The Health Department did not properly budget nor report indirect costs in accordance with grant requirements.

The MDHHS Grant Agreement, Part II, Section IV. K. Indirect Costs and Cost Allocations/Distribution Plans states, "...4. There must be a documented, well-defined rationale and audit trail for any cost distribution or allocation based upon Title 2 CFR, Part 200 Cost Principles and subject to Department review."

Title 2 CFR 200.331(a)(4) provides options for recovering indirect cost which include either an approved federally recognized indirect cost rate, a rate negotiated between the pass-through entity and the subrecipient (in compliance with 2 CFR 200), or a de-minimis indirect cost rate. Specific documentation, negotiation, and approval requirements related to indirect cost rates for Local Governments are identified in Appendix VII of 2 CFR 200. In lieu of an approved rate, the Health Department has the option to use a cost allocation plan that distributes indirect costs to specific funding sources according to Appendix VII, Section F. 3. of 2 CFR 200.

The MDHHS Grant Agreement, Part II, Section IV. D. requires that the "FSR's must report total actual program expenditures regardless of the source of funds." Also, Title 2 CFR 200.402 Composition of costs states, "...The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits."

During our review, we identified the following three categories (cost pools) of indirect costs for which the Health Department and the programs they administer receive benefit from:

**A.) Citywide Central Services Costs**

These costs are for services provided on a centralized basis for the city's operating agencies for things such as financial operations, human resources, auditing, general services, contracting and procurement, legal, and executive costs.

**B.) Detroit Health Department (DHD) Administrative Shared Costs**

These costs are DHD administrative costs related to staff hired through SEMHA and invoices paid by SEMHA for things such as administrative assistance, budget development and management, contract development and monitoring, data design, facilities, human resources, logistics, quality improvement, strategic leadership communication, community relations, and social media.

**C.) Detroit Health Department Administrative In-House Costs**

These costs are DHD administrative costs related to personnel working at DHD, such as the Health Officer, deputies, division managers, program managers, and their associated expenditures

During our review of budgeted and reported indirect costs, we noted various exceptions related to the above categories of indirect cost as noted below:

## **Citywide Central Services Costs**

- 1.) The Health Department used a predetermined rate of 3% of total direct program expenditures to budget and report costs related to the Citywide Central Services Costs. However, there was no indirect cost rate proposal, negotiation, nor formal agreement related to this indirect cost rate as required by Appendix VII of 2 CFR 200.
- 2.) For FY 2017 the Health Department used an incorrect amount from the June 30, 2015 Citywide Central Services Cost Allocation Plan for budgeting purposes, using an amount of \$2,019,200 from one line below the Health Department line that contained an amount of \$651,311. While the rate was capped at 3%, using the correct amount of \$651,311 would have resulted in a lower rate of 2.62%. This resulted in a \$270 overstatement of reported costs.
- 3.) For FY 2018 the Health Department used the same incorrect amount from the June 30, 2015 Citywide Central Services Cost Allocation Plan for budgeting purposes, using an amount of \$2,019,200 when the Health Department's amount was \$1,817,160. While the rate was capped at 3%, using the correct amount of \$1,817,160 would have resulted in a higher rate of 7.31%. This resulted in a \$3,120 understatement of reported costs.

## **Detroit Health Department (DHD) Administrative Shared Costs**

- 1.) The Health Department used budgeted program costs instead of actual program costs for the distribution base.
- 2.) The Health Department used budgeted program costs for the distribution base that were not adequately supported; amounts did not reconcile to any approved MDHHS or SEMHA budget.
- 3.) The Health Department did not include all benefitting programs in the distribution base, resulting in a disproportionate share of indirect costs to all other benefitting programs.
- 4.) The Health Department did not report the total equitable amount of DHD Administrative Shared Costs on all benefitting program FSRs. If a program's budget was limited, the equitable DHD Administrative Shared Costs were only reported up to the budgeted amount or to the amount remaining in grant funds.
- 5.) The Health Department did not consistently apply the calculated distribution percentages. The Health Department adjusted formulas within the spreadsheet to shift distributions (dollar amounts) among programs with no documented rationale or methodology to support the adjusted distributions.

- 6.) The Health Department reported the budgeted amount of DHD Administrative Shared Costs to the RWHAP Part B MAI FSR instead of the actual equitable amount. This resulted in a \$497 overstatement of reported costs.

### **DHD Administrative In-House Costs**

- 1.) The Health Department did not budget nor allocate DHD Administrative In-House Costs to any benefitting programs throughout the fiscal years under review. For FY 2017, we determined that the unallocated DHD Administrative In-House Costs equaled \$3,866,875. For FY 2018, the unallocated DHD Administrative In-House Costs were not identified.

The Health Department did not have sufficient controls in place to ensure that all indirect costs are identified in the annual budget process; that all indirect costs were equitably allocated to all benefitting programs in compliance with 2 CFR 200; and that total actual program expenditures were reported on FSRs in compliance with the grant agreement. Consequently, the Health Department under-reported total indirect costs for both fiscal years under review. Unspent grant funds are not available at this time and the amount of under-reporting could not be easily determined, so adjustments to the full allocable and allowable amounts of indirect costs are not being made.

### **Recommendation**

We recommend that the Health Department implement sufficient controls and procedures to ensure that all indirect costs are budgeted and reported based on actual and allowable expenditures, and in accordance with relative benefits received to ensure compliance with Federal regulations and the grant agreement.

## **MDHHS SHARES OF COST AND BALANCE DUE**

**Objective 2:** To determine the MDHHS shares of cost in accordance with MDHHS requirements and agreements, Federal standards and program standards, and any balance due to or due from the Health Department.

**Conclusion:** The MDHHS obligations under RWHAP Part B MAI for fiscal year ended September 30, 2017 is \$73,829 and fiscal year ended September 30, 2018 is \$74,624. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. No adjustments were made as a result of our audit.



**Detroit Health Department  
 Ryan White Part B Minority Aids Initiative  
 Statement of Grant Program Revenues and Expenditures  
 10/1/16 - 9/30/17**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$75,951	\$73,829 <sup>1</sup>	\$0	\$73,829
<b>TOTAL REVENUES</b>	\$75,951	\$73,829	\$0	\$73,829
<b>EXPENDITURES:</b>				
Contractual	\$72,924	\$70,953	\$0	\$70,953
Indirect Costs	\$2,279	\$2,129	\$0	\$2,129
Other Cost Distribution	\$748	\$748	\$0	\$748
<b>TOTAL EXPENDITURES</b>	\$75,951	\$73,829	\$0	\$73,829

<sup>1</sup> Actual MDHHS payments.

**Detroit Health Department  
 Ryan White Part B Minority Aids Initiative  
 Statement of Grant Program Revenues and Expenditures  
 10/1/17 - 9/30/18**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$75,951	\$74,624 <sup>1</sup>	\$0	\$74,624
<b>TOTAL REVENUES</b>	<b>\$75,951</b>	<b>\$74,624</b>	<b>\$0</b>	<b>\$74,624</b>
<b>EXPENDITURES:</b>				
Contractual	\$72,450	\$72,450	\$0	\$72,450
Indirect Costs	\$2,279	\$2,174	\$0	\$2,174
Other Cost Distribution	1,222	\$0	\$0	\$0
<b>TOTAL EXPENDITURES</b>	<b>\$75,951</b>	<b>\$74,624</b>	<b>\$0</b>	<b>\$74,624</b>

<sup>1</sup> Actual MDHHS payments

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** **Non-Compliant Indirect Cost Budgeting and Reporting**

The Health Department did not properly budget nor report indirect costs in accordance with grant requirements.

**Recommendation:** Implement sufficient controls and procedures to ensure that all indirect costs are budgeted and reported based on actual and allowable expenditures, and in accordance with relative benefits received to ensure compliance with Federal regulations and the grant agreement.

**Comments:** The Health Department took action to modify their indirect cost budgeting and reporting methodologies, and received feedback from MDHHS representatives. The Health Department believes that actions taken to correct previous methodologies sufficiently address the deficiencies noted in the finding.

**Corrective Action:** The Health Department modified their indirect cost budgeting and reporting methodologies so that the total amount of indirect costs (including Citywide Central Services Costs, DHD Administrative Shared Costs, and DHD Administrative In-House Costs) is included in budgets, and actual amounts are reported monthly. Budgets and FSR reporting will show total amounts, including amounts funded with grant funds and amount funded with local funds. The Health Department will have two distributions, one will consist of Citywide Central Services Costs, and the other will consist of DHD Administrative Shared Costs and DHD Administrative In-House Costs. The

Citywide Central Services Costs represent actual audited costs from two years prior, and will be distributed monthly based on actual monthly direct costs of each benefitting program. For the Citywide Central Services Costs, a CAP of 3% of direct costs will be funded with grant funds, and the remainder funded with local funds. The DHD Administrative Shared Costs and DHD Administrative In-House Costs represent actual administrative costs incurred through SEMHA and the City of Detroit, and the actual monthly costs will be distributed monthly based on actual salary and fringe costs of each benefitting program. For the DHD Administrative Costs, a CAP of 15% of salary and fringe costs will be funded with grant funds, and the remainder funded with local funds.

**Person Responsible  
for Implementation:**

City of Detroit Health Department and Financial Services Division

**Anticipated  
Completion Date:**

Beginning FY 2020