
Muskegon County Health Department

Women, Infants, and Children Program

For the Period 10/01/2017 – 09/30/2018

Preliminary Analysis – Issued March 2020

State of Michigan
Department of Health and Human Services
Bureau of Audit
Audit Division





STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

GRETCHEN WHITMER
GOVERNOR

ROBERT GORDON
DIRECTOR

March 6, 2020

Ms. Kathy Moore, Health Officer
Muskegon County Health Department
209 East Apple, Suite D104
Muskegon, Michigan 49442

Dear Ms. Moore:

This is our audit report of the Women, Infants, and Children (WIC) program administered by Muskegon County Health Department for the audit period October 1, 2017 through September 30, 2018.

The Michigan Department of Health and Human Services (MDHHS) is committed to ensuring high standards of integrity and accountability for public funds. To that end, we periodically perform audits to assess the agency's compliance with fiscal reporting and other requirements contained in MDHHS agreements, and policies and procedures; and Federal regulations.

The report includes the Executive Summary, Exceptions, Recommendations, Corrective Actions, Statements of Audited Grant Revenues and Expenses, Federal and State Grant Award Information, and Scope and Methodology.

As noted in Exception 1, a total of \$9,854 is due to MDHHS. Please remit a check, payable to the State of Michigan, to the following address by April 6, 2020:

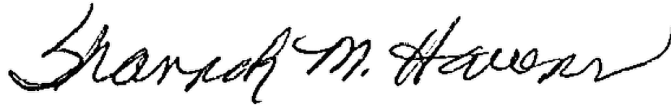
Michigan Department of Health and Human Services
Cash Receipting
PO Box 30437
Lansing, Michigan 48933

Ms. Kathy Moore, Health Officer
Muskegon County Health Department
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March 6, 2020

Final reports are posted for public viewing on the [MDHHS website](#).

I would like to extend my appreciation for the cooperation extended throughout the audit process.

Sincerely,

A handwritten signature in black ink that reads "Shannah M. Havens". The signature is written in a cursive, flowing style.

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

- c: Debra Hallenbeck, MDHHS, Audit
- Steven Tadazak, MDHHS, Audit
- Christina Herring, MDHHS, WIC
- Cecilia Hutson, MDHHS, WIC
- Mary McGrath, MDHHS, Accounting
- Kidada Smith, MDHHS, Accounting
- Rebecca Jones, MDHHS, Accounting
- Jerrell Blackwell, MDHHS, Accounting
- Nancy Bramer, Muskegon County Health Department

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EXECUTIVE SUMMARY

Below is a summary of exceptions and the Health Department's corrective action plan.

Exception 1 Page 2	Incorrect Indirect Calculation Method in Third Quarter
Criteria	Title 2 CFR Part 200.303
Amount to be Returned	\$9,854
Corrective Action	Updated the indirect allocation procedures.
Completion Date	July 25, 2019
Person Responsible	Nancy Bramer, Public Health Finance Supervisor

Exception 2 Page 3	Longevity Pay Misclassified
Criteria	FSR Form Preparation Instructions, Part IV, Section E
Amount to be Returned	\$-0-
Corrective Action	Updated the fringe classification process.
Completion Date	September 30, 2019
Person Responsible	Nancy Bramer, Public Health Finance Supervisor

Exception 3 Page 4	Internal Service Funds Working Capital Reserves Exceed Allowable Limit
Criteria	Title 2 CFR Part 200, Appendix V, Section G
Amount to be Returned	\$-0-
Corrective Action	Reviewing its Internal Service Fund classification.
Completion Date	Ongoing
Person Responsible	Dwight Avery, Accounting Manager

Exception 1

Incorrect Indirect Calculation Method in Third Quarter

Condition

The Health Department used an incorrect indirect calculation method in the third quarter.

Criteria

Title 2 CFR 200.303 states that a non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. The Health Department's Cost Allocation Procedure states there are three administrative programs (Public Health Administration, Public Health Finance/Accounting, and Performance Management) whose costs are allocated using active assigned Full Time Equivalent (FTE) positions. Active FTEs are assessed at the beginning of each quarter.

Exception

During our review, we noted that the third quarter calculation for the indirect cost pools was calculated incorrectly. For the third quarter calculation, WIC FTEs increased while the total Health Department FTEs decreased, thus increasing WIC's percentage of FTEs. Due to an error in the indirect calculation spreadsheet, the quarter three indirect calculation retroactively applied the new FTE percentage to quarters one and two. This caused the quarter three WIC indirect costs to be overstated by the following amounts:

- Indirect costs from the Administration cost pool were overstated by \$4,841
- Indirect costs from the Accounting cost pool were overstated by \$4,446
- Indirect costs from the Performance Management cost pool were overstated by \$567

The Health Department did not have sufficient controls in place to ensure that indirect allocations were properly calculated and reported to the appropriate programs. Adjustments to the WIC Program expenditures are shown on the attached Statement of Audited Grant Program Revenues and Expenses. As a result of the adjustments, the Health Department owes MDHHS \$9,854.

Recommendation

We recommend that the Health Department implement sufficient controls and procedures to properly calculate indirect costs and allocate them to the appropriate benefitting programs to ensure compliance with Federal regulations.

Agency Response and Corrective Action Plan

Public Health – Muskegon County has updated the Public Health Cost Allocations Procedure to include a step by step process to determine the FTE base and the expenditures to be allocated to assure that administrative costs are calculated and reported to the appropriate programs.

Completion Date

July 25, 2019

Responsible Individual

Nancy Bramer, Public Health Finance Supervisor

**Exception 2
Longevity Pay Misclassified**

Condition

The Health Department did not properly classify longevity pay as salaries and wages on its FSRs.

Criteria

According to the FSR Form Preparation Instructions, Part IV, Section E, Subsection 1, “Salaries and Wages – this category includes the compensation paid to all permanent and part-time employees on the payroll of the contractor and assigned directly to the program.” Longevity pay is given to an employee based on seniority and is compensation for their years of service. This compensation is taxable to the employee and should be classified as salaries and wages.

Exception

During our review, we noted that the Health Department misclassified \$2,225 of longevity pay as fringe benefits within the WIC program.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that longevity pay is properly classified as salaries and wages.

Agency Response and Corrective Action Plan

Public Health – Muskegon County has established an automatic process that includes a check and balance review to assure wage and fringe costs are classified appropriately.

Completion Date

September 30, 2019

Responsible Individual

Nancy Bramer, Public Health Finance Supervisor

**Exception 3
Internal Service Funds Working Capital Reserves Exceed Allowable Limit**

Condition

Muskegon County had two Internal Service Funds with working capital reserves that exceeded the allowable amount established by 2 CFR Part 200.

Criteria

Title 2 CFR Part 200, Appendix V, Section G states that Internal Service Funds are dependent upon a reasonable level of working capital reserve to operate from one billing cycle to another. A working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable.

Exception

Muskegon County charges most Departments (including the Health Department) for expenses using Internal Service Funds. The funds are used to finance the cost of providing services for their departments. Based on the financial statements for the Fiscal Year Ended December 31, 2017, Muskegon County had accumulated excess balances for two Internal Service Funds.

The following represents an analysis of Muskegon County’s Internal Service Funds for the Fiscal Year Ended December 31, 2017, for the funds that exceeded the allowable limit:

Fund	(A) 2 CFR Part 200 Adjusted Retained Earnings	(B) 60-Day Operating Expenses	(C) Excess [A – B]	(D) Months of Excess [(C / B) x 2]
Energy Improvements	\$ 963,354	\$ 2,928	\$ 960,426	656
Equipment Revolving	\$ 1,941,476	\$ 280,739	\$ 1,660,737	12

Reductions are needed to achieve compliance with Federal cost principles for the funds above with excess working capital reserves. As a result of excess working capital reserves, Federal programs are over-charged for services provided through the internal service funds.

Recommendation

We recommend that Muskegon 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 2021 by either cash refunds or adjustment to future billing rates/allocations to ensure compliance with Federal regulation.

Agency Response and Corrective Action Plan

The Muskegon County Accounting Department is reviewing Exception 3 to determine if the Energy Improvements and Equipment Revolving Funds are appropriately classified as Internal Service Funds.

Completion Date

Ongoing

Responsible Individual

Dwight Avery, Accounting Manager

Muskegon County Health Department WIC Residential Services Program Statement of Audited Grant Revenues and Expenses 10/01/2017 - 09/30/2018					
	BUDGETED	REPORTED	AUDITED	AUDIT ADJUSTMENT	EXCEPTION REFERENCE
REVENUES					
MDHHS Grant	\$ 1,069,877	\$1,069,877	\$ 1,060,023	\$ (9,854)	1
Fees and Collections - 1st and 2nd Party	\$ -	\$ 349	\$ 349		
Total Revenues	\$ 1,069,877	\$1,070,226	\$ 1,060,372	\$ (9,854)	
EXPENSES					
Salaries and Wages	\$ 407,412	\$ 435,873	\$ 438,098	\$ 2,225	2
Fringe Benefits	\$ 238,871	\$ 239,591	\$ 237,365	\$ (2,225)	2
Supplies and Materials	\$ 29,517	\$ 29,840	\$ 29,840	\$ -	
Travel	\$ 3,930	\$ 9,122	\$ 9,122	\$ -	
Communication	\$ 3,250	\$ 2,421	\$ 2,421	\$ -	
County-City Central Services	\$ 49,000	\$ 52,499	\$ 52,499	\$ -	
Space Costs	\$ 47,775	\$ 26,264	\$ 26,264	\$ -	
All Others	\$ 78,269	\$ 75,125	\$ 75,125	\$ -	
Cost Allocation Plan / Other	\$ 211,853	\$ 199,491	\$ 189,637	\$ (9,854)	1
Total Expenses	\$ 1,069,877	\$1,070,226	\$ 1,060,372	\$ (9,854)	
Exception 1: Indirect Costs Overstated in Third Quarter Exception 2: Longevity Pay Misclassified					

FEDERAL AND STATE GRANT AWARD INFORMATION

Program Title	WIC Resident Services
Federal Agency	U.S. Department of Agriculture
Federal Sub-Tier	Food and Nutrition Service
Federal Program Title	Women, Infants, and Children (WIC) Supplemental Nutrition Program
CFDA Number	10.557
MDHHS Agreement No.	
MDHHS Agreement Period	
Exception(s) Related to Program	
Amount to be Returned	\$-0-
Exception(s) for Return Amount	Not Applicable
See the Statement of Audited Grant Revenues and Expenses for line item adjustment details for exceptions.	

SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the period October 1, 2017 through September 30, 2018.

Our audit procedures included the following:

- Reviewed the most recent Single Audit and Financial Statement Audit Reports for any WIC Program related concerns.
- Reviewed the Grant Agreement, Budgets, and Program Specific Assurances and Requirements.
- Reviewed policies to ensure they meet applicable requirements and guidelines.
- Reviewed the most recently completed Fiscal Questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) and MDHHS payment schedules to the accounting records.
- Tested a selection of payroll and non-payroll expenditures for program compliance; and adherence to policies, Federal and program guidelines, and approval procedures.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed any equipment purchases over \$2,500 for the WIC Program.
- 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.

GLOSSARY OF ABBREVIATIONS AND TERMS

CFDA	Catalog of Federal Domestic Assistance
CFR	Code of Federal Regulations
FSR	Financial Status Report
MDHHS	Michigan Department of Health and Human Services
WIC	Women, Infants, and Children