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GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT, REIMBURSEMENT AND QUALITY ASSURANCE
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NICK LYON
DIRECTOR

November 27, 2017

Ann Hepfer, RN, BS, Health Officer
Huron County Health Department
1142 S Van Dyke
Bad Axe, MI 48413

Dear Ms. Hepfer:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Huron County Health Department WIC Program and Family Planning Program for the period October 1, 2015 through September 30, 2016.

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 Plans. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on MDHHS's website at:
http://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Shannah M Havens, CPA, CISA
Audit Manager
Population Health and Community Services Section
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: Debra Hallenbeck, Director, Audit Division
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Audit Report

Huron County Health Department
WIC and Family Planning Programs

October 1, 2015 – September 30, 2016



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division
November 2017

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DESCRIPTION OF AGENCY

The Huron 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 Huron County, and the administrative office is located in Bad Axe, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is appointed by the Board of Commissioners of Huron County.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Health and Human Services (MDHHS) provided 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 WIC Program was funded by MDHHS grant funds, and Other Local Funds. Grant funding from MDHHS for the WIC Program is federal funding under federal catalog number 10.557.

The Family Planning Program was funded by MDHHS Grant Funds, First and Third Party Fees and Collections, Local and Other Revenue. Grant funding from MDHHS for the Family Planning Program is federal funding under federal catalog number 93.217 and 93.994, and is subject to performance requirements. That is, reimbursement from MDHHS is based upon the understanding that a certain level of performance (measured in caseload established by MDHHS) 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 and Family Planning Programs financial reporting, and to determine the MDHHS shares of WIC Program and Family Planning Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in reporting its WIC Program and Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.
2. To determine the MDHHS shares of cost for the WIC, WIC Breastfeeding, and Family Planning Programs in accordance with applicable MDHHS 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, 2015 to September 30, 2016. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any WIC Program or Family Planning Program concerns.
- Reviewed the completed Subrecipient Questionnaire.
- Reconciled the WIC Program and Family Planning Program Financial Status Reports (FSRs) 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 building space costs for proper reporting and compliance with Federal requirements.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed Family Planning Program 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

FINANCIAL REPORTING

Objective 1: To assess the Health Department's effectiveness in reporting its WIC Program and Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department generally reported its WIC Program and Family Planning Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we identified the following exceptions: non-compliant fringe benefit distribution (Finding 1) and inaccurate indirect cost calculation (Finding 2).

Finding

1. Non-Compliant Fringe Benefit Distribution

The Health Department did not properly allocate WIC, WIC Breastfeeding, and Family Planning Program employees' fringe benefit expenditures for employees working on multiple activities.

Title 2 CFR 200.430(i)(1) for Compensation states, "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated...(vii) support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award..." It also states in Section 431(b) for Fringe benefits specific to leave that, "The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if... (2) The costs are equitably allocated to all related activities, including Federal awards."

During our review, we noted that the Health Department allocated employee leave time based on each employee's work schedule. If an employee is absent, leave time hours are allocated to programs based on the work schedule for the absent time period, instead of properly allocating the leave time to all programs that the employee actually worked for the pay period.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

Finding

2. Inaccurate Indirect Cost Calculation

The Health Department did not accurately compute its indirect cost allocations.

Title 2 CFR 200, Appendix VII, states, "Where a non-Federal entity's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (1) classifying the non-Federal entity's total costs for the base period as either direct or indirect, and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual Federal awards." It further states that the distribution base may be total direct costs (excluding capital expenditures and other distorting items), direct salaries and wages, or other equitable distribution base.

The Health Department correctly included all salaries, wages and fringe benefits in its indirect cost distribution base when calculating the indirect cost rate. However, when they applied the rate, they mistakenly excluded the worker's compensation expenses. As a result, the Health Department did not report all of its indirect costs. The impact was not material, and proper reporting would not have resulted in additional grant funds since the full grant amounts were already expensed.

After bringing this to the Health Department's attention, the Finance Manager implemented a new process in August 2017 to ensure that all salary, wages and fringe benefit expenditures were included in the indirect cost distribution base, and indirect cost calculation.

Recommendation

We recommend that the Health Department implement controls to ensure that all salary, wages, and fringe benefit expenditures are included in its indirect cost distribution base and indirect cost calculations so indirect costs are properly reported for all benefiting programs.

MDHHS SHARES OF COST AND BALANCE DUE

Objective 2: To determine the MDHHS shares of cost for the WIC, WIC Breastfeeding, and Family Planning Programs in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDHHS obligations under the WIC, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2016 are \$142,148, \$31,961, and \$34,901; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments.

**Huron County Health Department
WIC Resident Services
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$142,806	\$142,148 ¹		\$142,148
Fees & Collections - 1st & 2nd Party	\$721	\$1,639		\$1,639
TOTAL REVENUES	\$143,527	\$143,787	\$0	\$143,787
EXPENDITURES:				
Salary & Wages	\$48,951	\$50,100		\$50,100
Fringe Benefits	\$29,691	\$30,227		\$30,227
Contractual	\$2,856	\$2,475		\$2,475
Supplies & Materials	\$2,059	\$4,297		\$4,297
Travel	\$851	\$1,224		\$1,224
Space Costs	\$13,664	\$13,580		\$13,580
Other	\$3,210	\$1,069		\$1,069
Indirect Costs	\$18,874	\$19,202		\$19,202
Other Costs Distributions	\$23,371	\$21,613		\$21,613
TOTAL EXPENDITURES	\$143,527	\$143,787	\$0	\$143,787

¹ Actual MDHHS payments.

**Huron County Health Department
WIC Breastfeeding
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$31,961	\$31,961 ¹		\$31,961
Fees & Collections - 1st & 2nd Party	\$228	\$325		\$325
Local Funds - Other	\$2,793	\$2,704		\$2,704
TOTAL REVENUES	\$34,982	\$34,990	\$0	\$34,990
EXPENDITURES:				
Salary & Wages	\$11,081	\$11,390		\$11,390
Fringe Benefits	\$10,435	\$10,478		\$10,478
Supplies & Materials	\$12	\$43		\$43
Travel	\$35	\$109		\$109
Space Costs	\$1,472	\$1,401		\$1,401
Other	\$293	\$293		\$293
Indirect Costs	\$5,164	\$5,222		\$5,222
Other Costs Distributions	\$6,490	\$6,054		\$6,054
TOTAL EXPENDITURES	\$34,982	\$34,990	\$0	\$34,990

¹ Actual MDHHS payments.

**Huron County Health Department
Family Planning Services
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$34,901	\$34,901 ¹		\$34,901
Fees & Collections - 1st & 2nd Party	\$7,157	\$6,895		\$6,895
Fees & Collections - 3rd Party	\$30,246	\$29,694		\$29,694
Federal Cost Based Reimbursement	\$70,420	\$72,000		\$72,000
Required Match - Local	\$7,824	\$0		\$0
Local Funds - Other	\$0	\$3,971		\$3,971
TOTAL REVENUES	\$150,548	\$147,461	\$0	\$147,461
EXPENDITURES:				
Salary & Wages	\$38,932	\$38,881		\$38,881
Fringe Benefits	\$25,203	\$25,385		\$25,385
Contractual	\$5,333	\$4,202		\$4,202
Supplies & Materials	\$16,087	\$13,711		\$13,711
Travel	\$917	\$794		\$794
Space Costs	\$12,597	\$12,499		\$12,499
Other	\$16,952	\$17,424		\$17,424
Indirect Costs	\$15,392	\$15,380		\$15,380
Other Costs Distributions	\$19,135	\$19,185		\$19,185
TOTAL EXPENDITURES	\$150,548	\$147,461	\$0	\$147,461

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Non-Compliant Fringe Benefit Distribution**

The Health Department did not properly allocate WIC, WIC Breastfeeding, and Family Planning Program employees' fringe benefit expenditures for employees working on multiple activities.

Recommendation: Adopt policies and procedures to ensure that all fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

Comments: None.

Corrective Action: Bi-weekly calculation will be completed based on actual hours worked for allocation of time off. A spreadsheet will be used to determine correct percentages to be charged to programs.

Person Responsible for Implementation: Finance Director and Bookkeeper II's.

Anticipated

Completion Date: Effective payroll beginning 11/11/17.

MDHHS Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: **Inaccurate Indirect Cost Calculation**

The Health Department did not accurately compute its indirect cost allocations.

Recommendation: Implement controls to ensure that all salary, wages, and fringe benefit expenditures are included in its indirect cost distribution base and indirect cost calculations so indirect costs are properly reported for all benefiting programs.

Comments: This process was corrected in August 2017.

Corrective Action: All salaries and fringe benefits will be included in the indirect calculation.

Person Responsible for Implementation: Finance Director.

Anticipated

Completion Date: August 2017.

MDHHS Response: None.