



STATE OF MICHIGAN

GRETCHEN WHITMER  
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

ROBERT GORDON  
DIRECTOR

May 7, 2019

Denise Bryan, MPA, Health Officer  
District Health Department #4  
100 Woods Circle, Suite 200  
Alpena, Michigan 49707

Dear Ms. Bryan:

Attached is our final report from the Michigan Department of Health and Human Services audit of the District Health Department #4 Family Planning and Women, Infants, and Children (WIC) Programs for the period October 1, 2016 through September 30, 2017.

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; Corrective Action Plans; and Comments and Recommendations. The Corrective Action Plans and Comments and Recommendations include the agency's response to the Preliminary Analysis.

As noted in Finding 1, a total of \$977 is due back to MDHHS. Please remit a check payable to the State of Michigan for \$977 to the following address by May 31, 2019:

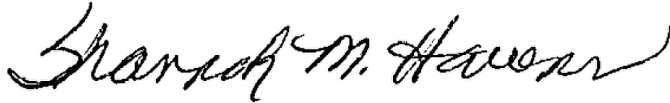
Michigan Department of Health and Human Services  
Cash Receipting  
PO Box 30437  
Lansing, MI 48933

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

Denise Bryan, MPA, Health Officer  
District Health Department #4  
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May 6, 2019

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in black ink, reading "Shannah M. Havens". The signature is fluid and cursive, with the first name being the most prominent.

Shannah M. Havens, CPA, CISA  
Audit Section Manager  
Population Health and Community Services Programs Section  
Audit Division

Attachment

cc: Debra Hallenbeck, Director, Audit Division  
Christina Herring, Director, WIC Division  
Brittany LaRue, Manager, Financial Management and FMNP Unit  
Kelly Voegeding, Financial Analyst, WIC Division  
Paulette Dobynes Dunbar, Manager, Division of Maternal and Infant Health  
Deanna Charest, Manager, Reproductive and Preconception Health Unit  
Steve Utter, Financial Analyst, Division of Maternal and Infant Health  
Mary McGrath, Manager, Revenue Section  
Kidada Smith, Manager, Contract Payable Section  
Matthew Tompkins, Auditor, Population Health and Community Services Program  
Judy Greer, Administrative Services Director, District Health Department #4

# Audit Report

District Health Department #4

Family Planning

Women, Infants, and Children

October 1, 2016 – September 30, 2017



Bureau of Audit

Audit Division

May 2019

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## **DESCRIPTION OF AGENCY**

The District Health Department #4 (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Alpena County, which is the reporting entity, and the administrative office is located in Alpena, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners from Alpena, Cheboygan, Montmorency, and Presque Isle Counties. The Health Department provides community health program services to the residents of these four counties.

## **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 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 numbers 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.

The WIC Programs were funded by MDHHS Grant Funds, First and Third-Party Fees and Collections, Local and Other Revenue. Grant funding from MDHHS for the WIC Programs is federal funding under federal catalog number 10.557.

## **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 year period of October 1, 2016, to September 30, 2017. 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/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed equipment purchases over \$5,000 for the Family Planning Program and \$2,500 for the WIC Program.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed Family Planning 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 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 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 exception: unallowable expenditures included in the indirect cost pool (Finding 1).

## **Finding**

### **1. Unallowable Expenditures Included in the Indirect Cost Pool**

<b>Federal Agency</b>	U.S. Department of Agriculture
<b>Federal Sub-Tier</b>	Food and Nutrition Service
<b>Federal Program Title</b>	Supplemental Nutrition Program for Women, Infants, and Children (WIC)
<b>CFDA Number</b>	10.557
<b>Project Title</b>	Women, Infants, and Children (WIC)
<b>Amount Due to MDHHS</b>	\$-0-
<b>Repeat Finding</b>	No

<b>Federal Agency</b>	U.S. Department of Health and Human Services
<b>Federal Sub-Tier</b>	Office of Population Affairs
<b>Federal Program Title</b>	Family Planning Services
<b>CFDA Number</b>	93.217
<b>Project Title</b>	Family Planning Program
<b>Amount Due to MDHHS</b>	\$-0-
<b>Repeat Finding</b>	No

The Health Department included unallowable expenditures in the calculation of its indirect cost pool.

Title 2 CFR 200.439 (b) (7) states, "Equipment and other capital expenditures are unallowable as indirect costs." Also, Title 2 CFR.436 states, "(a) Depreciation is the method for allocating the cost of fixed assets to periods benefitting from asset use. The non-Federal entity may be compensated for the use of its buildings, capital improvements, equipment, and software projects capitalized in accordance with GAAP, provided that they are used, needed in the non-Federal entity's activities, and properly allocated to Federal awards. Such compensation must be made by computing depreciation. (b) The allocation for depreciation must be made in accordance with Appendices III through IX."

Our review noted that the Health Department included capital expenditures for a telephone system upgrade (\$17,124) and a computer software upgrade (\$11,028) in its indirect cost pool calculation. The depreciation expenses for the two capital expenditures were \$1,542 and \$993, respectively. The appropriate indirect cost pool calculation is to include the depreciation costs and not the total costs of the capital assets. We recalculated the indirect cost rate to reflect the allowable costs. Application of the corrected indirect cost rate resulted in a reduction of allowable costs of \$3,155 for the WIC Program, \$415 for the WIC Breastfeeding Program, and \$1,391 for the Family Planning Program. Adjustments reflecting the changes for indirect costs for those programs are shown on the attached Statements of Grant Program Revenues and Expenditures.

Due to the level of local funding for the WIC and Family Planning Programs, there is no impact on MDHHS funding. However, the correction of the indirect cost allocation impacts MDHHS's obligation for the MDEQ Private and Type III Water Supply for \$977. (See Exhibit #1.)

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that only allowable expenditures are included in the indirect cost pool calculation.

## **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 for fiscal year ended September 30, 2017, total \$82,364 for Family Planning, \$305,088 for WIC Residential Services, and \$59,278 for WIC Breastfeeding. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit results included adjustments, but grant funding was not affected for the Family Planning and WIC Programs. However, \$977 is due back to MDHHS for the MDEQ Private and Type III Water Supply Program due to the unallowable expense noted in Finding 1 and summarized on Exhibit #1.



**District Health Department #4**  
**Family Planning**  
**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	\$88,403	\$82,364 <sup>1</sup>		\$82,364
Fees & Collections - 1st & 2nd Party	\$2,000	\$1,264		\$1,264
Fees & Collections - 3rd Party	\$38,000	\$27,219		\$27,219
Federal Cost Based Reimbursement	\$50,532	\$31,408		\$31,408
Required Match - Local	\$5,054	\$3,144		\$3,144
Local Funds - Other	\$16,383	\$96,058	(\$1,391) <sup>2</sup>	\$94,667
<b>TOTAL REVENUES</b>	<b>\$200,372</b>	<b>\$241,457</b>	<b>(\$1,391)</b>	<b>\$240,066</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$71,038	\$87,147		\$87,147
Fringe Benefits	\$31,967	\$44,915		\$44,915
Supplies & Materials	\$30,228	\$18,418		\$18,418
Travel	\$4,500	\$5,371		\$5,371
Communication	\$1,200	\$2,869		\$2,869
Space Costs	\$12,000	\$11,108		\$11,108
Other	\$12,900	\$8,658		\$8,658
Indirect Costs	\$28,841	\$51,980	(\$1,391) <sup>2</sup>	\$50,589
Other Costs Distributions	\$7,698	\$10,991		\$10,991
<b>TOTAL EXPENDITURES</b>	<b>\$200,372</b>	<b>\$241,457</b>	<b>(\$1,391)</b>	<b>\$240,066</b>

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

<sup>2</sup> Unallowable Expenditures Included in Cost Pool (Finding 1)

**District Health Department #4**  
**WIC Residential Services**  
**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	\$305,088	\$305,088 <sup>1</sup>		\$305,088
Fees & Collections - 1st & 2nd Party	\$0	\$15		\$15
Fees & Collections - 3rd Party	\$18,900	\$19,353		\$19,353
Federal Cost Based Reimbursement	\$65,000	\$50,000		\$50,000
Required Match - Local	\$16,224	\$12,480		\$12,480
Local Funds - Other	\$84,252	\$113,495	(\$3,155) <sup>2</sup>	\$110,340
<b>TOTAL REVENUES</b>	\$489,464	\$500,431	(\$3,155)	\$497,276
<b>EXPENDITURES:</b>				
Salary & Wages	\$202,439	\$200,765		\$200,765
Fringe Benefits	\$97,171	\$98,801		\$98,801
Supplies & Materials	\$7,000	\$4,876		\$4,876
Travel	\$10,000	\$10,227		\$10,227
Communication	\$3,500	\$5,891		\$5,891
Space Costs	\$28,000	\$26,648		\$26,648
Other	\$12,000	\$13,958		\$13,958
Indirect Costs	\$104,354	\$117,910	(\$3,155) <sup>2</sup>	\$114,755
Other Costs Distributions	\$25,000	\$21,355		\$21,355
<b>TOTAL EXPENDITURES</b>	\$489,464	\$500,431	(\$3,155)	\$497,276

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

<sup>2</sup> Unallowable Expenditures Included in Cost Pool (Finding 1)

**District Health Department #4**  
**WIC Breastfeeding**  
**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	\$59,278	\$59,278 <sup>1</sup>		\$59,278
Local Funds - Other	\$17,664	\$16,652	(\$415) <sup>2</sup>	\$16,237
<b>TOTAL REVENUES</b>	\$76,942	\$75,930	(\$415)	\$75,515
<b>EXPENDITURES:</b>				
Salary & Wages	\$25,899	\$27,423		\$27,423
Fringe Benefits	\$15,280	\$12,034		\$12,034
Supplies & Materials	\$450	\$375		\$375
Travel	\$5,500	\$5,402		\$5,402
Communication	\$700	\$1,189		\$1,189
Space Costs	\$5,500	\$4,468		\$4,468
Other	\$100	\$0		\$0
Indirect Costs	\$12,354	\$15,530	(\$415) <sup>2</sup>	\$15,115
Other Costs Distributions	\$11,159	\$9,509		\$9,509
<b>TOTAL EXPENDITURES</b>	\$76,942	\$75,930	(\$415)	\$75,515

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

<sup>2</sup> Unallowable Expenditures Included in Cost Pool (Finding 1)

## Exhibit #1

District Health Department #4  
Schedule of Recalculated Indirect Costs  
10/1/2016 - 9/30/2017

Program Title	Salary & Wages Per FSR	Fringe Benefits Per FSR	Total Salaries and Fringes	Recalculated Cost Pool Amount	Distribution Base	Recalculated Allocation Rate Allowable	Recalculated Indirect Costs	Indirect Costs Reported on Final FSR	Local Funds Used per FSR	MDHHS Grant Impact Amonut
			A	B	C	D B/C	E AxD	F	G E-F	H G+H
MDEQ Private Water and Type III Water Supply	102,830.00	38,276.00	141,106.00	931,676.52	2,432,122	38.31%	54,053.68	55,540.00	(1,486.32)	509.00 (977.32)
Total MDHHS Grant Impact										(977.32)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** **Unallowable Expenditures Included in the Indirect Cost Pool**

The Health Department included unallowable expenditures in the calculation of its indirect cost pool.

**Recommendation:** Implement policies and procedures to ensure that only allowable expenditures are included in the indirect cost pool calculation.

**Comments:** District Health Department #4 (DHD4) fiscal year differs from the State of Michigan fiscal year resulting in depreciation being applied at December 31<sup>st</sup> rather than September 30<sup>th</sup>.

**Corrective Action:** DHD4 will ensure that only allowable expenditures will be included in Indirect cost calculations. Depreciation for capital expenditures will be used for the indirect calculation.

**Person Responsible for Implementation:** Judy Greer

**Anticipated Completion Date:** July 1, 2019

## Comment and Recommendation

### 1. **Insufficient Control Activities to Ensure Segregation of Duties for Key Financial Procedures**

The Health Department did not have sufficient control activities to ensure segregation of duties for its key financial procedures.

Title 2 CFR 200.303 states, “The non-Federal entity must: (a) 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. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States...” The Standards for Internal Control in the Federal Government, Principle 10.03, Design of Appropriate Types of Control Activities, states, “Management divides or segregates key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. This includes separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets so that no one individual controls all key aspects of a transaction or event.”

During our review of the Health Department’s Subrecipient Questionnaire, we noted that management did not segregate its key financial duties and responsibilities to reduce its risk of financial error, misuse, or fraud. We noted that one employee had the responsibilities for entering receipts into cash receipts journals, posting to the general ledger, approving invoices for payment, preparing deposit slips, and reconciling the bank accounts.

We recommend that the Health Department implement sufficient control activities to ensure segregation of duties for its key financial procedures to ensure compliance with federal regulations and standards.

**Management Response:** Being a small health department, segregation of duties may not be possible due to staffing levels.

DHD4 has already reassigned the preparation of deposit slips to the two Account Clerks rather than the Administrative Services Director. All funds received are recorded by Account Clerks; Administrative Services Director only enters from the receipt books into the Accounting software. Working with Account Clerk regarding reconciliation of bank accounts.

**Person Responsible  
for Implementation:** Judy Greer

**Anticipated  
Completion Date:** July 1, 2019

## Comment and Recommendation

### 2. Insufficient Supporting Documentation for Legal Fees Expense

The Health Department did not retain sufficient source documentation to support a legal fee charged to the indirect expense cost pool.

Title 2 CFR 200.302 states, "... (b) The financial management system of each non-Federal entity must provide the following... (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must... be supported by source documentation."

During our review of indirect costs, we noted a legal fee charge of \$2,000 that was not supported by an invoice.

We recommend that the Health Department retain appropriate source documentation to support charges allocated to federal awards.

**Management Response:** DHD4 will retain all documentation necessary to support charges before being submitted for processing of accounts payable.

**Person Responsible  
for Implementation:** Judy Greer

**Anticipated  
Completion Date:** May 1, 2019