

Audit Report

Berrien County Health Department
WIC and Family Planning Programs

October 1, 2013– September 30, 2014



Bureau of Audit, Reimbursement, and Quality Assurance
Quality Assurance and Review
December 2015



STATE OF MICHIGAN

RICK SNYDER
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

NICK LYON
DIRECTOR

December 22, 2015

Michael A. Mortimore, Health Officer/Director
Berrien County Health Department
2149 E. Napier Avenue
P.O. Box 706
Benton Harbor, Michigan 49023-0706

Dear Mr. Mortimore:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Berrien County Health Department Family Planning and WIC Programs for the period October 1, 2013 through September 30, 2014.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of Grant Program Revenues and Expenditures; and Corrective Action Plans. The conclusions, findings, and recommendations 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,

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance
Stan Bien, Director, WIC Division
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Deanna Charest, Manager, Reproductive and Preconception Health Unit
Steve Utter, Financial Analyst, Division of Family and Community Health

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DESCRIPTION OF AGENCY

The Berrien 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 Berrien County, and the administrative office is located in Benton Harbor, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Berrien County. The Health Department provides various health program services to the residents of Berrien County.

FUNDING METHODOLOGY

The Health Department services are funded from local sources, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) 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.

Grant funding from MDCH 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 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.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557 and is first source funding.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC and Family Planning Programs' internal controls and financial reporting, and to determine the MDCH shares of the 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 establishing and implementing internal controls over the WIC and Family Planning Programs.
2. To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH shares of cost for the WIC and Family Planning Programs 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, 2013 to September 30, 2014. 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 most recent site visit report for any findings related to the Family Planning Program.
- Reviewed the completed internal control 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 indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed WIC equipment inventory and general Health Department equipment inventory records.

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 and Family Planning Programs.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the WIC and Family Planning Programs. No internal control exceptions were noted.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department generally reported their WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions related to the funding of the Internal Service Funds (Finding 1) and indirect cost allocations (Finding 2).

Finding

1. Internal Service Funds Reserves Exceed Allowable Amounts

Berrien County's Workers' Compensation, Health Care and Unemployment Internal Service Funds had working capital reserves that exceeded the allowable amounts as of December 2013 according to OMB Circular A-87.

Berrien County charges Berrien County Departments (including the Health Department) for workers' compensation, health care and unemployment. The County places the funds received from the County Departments in the Workers' Compensation, Health Care and Unemployment Internal Service Funds (Funds). The Funds are used to fund workers' compensation, health care and unemployment. Based on the December 31, 2013 financial statements and the report issued by MAXIMUS, the County had accumulated excess balances.

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 up to 60 days cash expenses for normal operating purposes is considered reasonable.

According to Berrien County's Internal Service Fund Summary for the Year Ended December 31, 2013, working capital reserves exceeded the allowable amounts by a total of \$3,843,018. Calculations for each Fund follow:

| | Workers' Compensation | Health Care | Unemployment. |
|-------------------------|--------------------------|-------------|---------------|
| 12/31/2013 Expenses | \$236,124 | \$9,721,768 | \$37,540 |
| 60-Day Cash Expenses | 39,354 | 1,620,295 | 6,257 |
| Working Capital Reserve | 349,324 | 5,130,714 | 28,886 |
| Excess Reserve | \$309,970 | \$3,510,419 | \$22,629 |

Reductions are needed to achieve compliance with Federal cost principles.

Recommendation

We recommend that Berrien County devise a plan to ensure the Workers' Compensation, Health Care and Unemployment Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2017 by either cash refunds or adjustment to future billing rates/allocations.

Finding

2. Understated Indirect Cost Allocations

The Health Department did not include all costs in the Community Preventative Health Services cost pool, did not allocate all Community Preventive Health Services to benefitting programs, and did not allocate Public Health Nursing to all benefitting programs.

OMB Circular A-87 (located at 2 CFR Part 225) Appendix A, Section F. 1. states that indirect costs are costs benefiting more than one cost objective and not readily assignable to the cost objectives specially benefited, and that indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefit derived.

In our review of indirect cost allocations, we noted the following three issues:

- a. In the Administration allocation, Community Preventive Health Services is included in the distribution base, so Community Preventive Health Services should receive a piece of the Administration allocation. However, the Administration allocation was not included in the Community Preventive Health Services cost pool for distribution to benefitting programs.
- b. When allocating Community Preventive Health Services, Community Preventive Health Services is included in the distribution, so not all costs are being allocated to the benefitting programs.
- c. Public Health Nursing benefits the Family Planning Program. However, the Family Planning Program is not included in the allocation of this cost center.

We determined that the allocations of Community Preventive Health Services to the WIC and Family Planning Programs were understated \$29,279 and \$17,348, respectively. Adjustments are shown on the attached Statements of Grant Program Revenues and Expenditures. An adjustment for the Public Health Nursing allocation was not calculated due to the lack of materiality and lack of impact on grant funding.

Recommendation

We recommend the Health Department implement policies and procedures to ensure all indirect costs are appropriately allocated to benefitting programs.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the WIC and Family Planning Programs 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 for fiscal year ended September 30, 2014 is \$739,354, and under the Family Planning Program for fiscal year ended September 30, 2014 is \$317,476. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC or Family Planning grant program funding.

**Berrien County Health Department
WIC Program
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|------------------|------------------------|-----------------------|------------------|
| REVENUES: | | | | |
| Fees & Collections | \$1,200 | \$5,906 | \$0 | \$5,906 |
| MDCH Grant | \$739,354 | \$739,354 ¹ | \$0 | \$739,354 |
| Local Funds Other | \$23,963 | \$9,566 | \$29,279 ² | \$38,845 |
| TOTAL REVENUES | \$764,517 | \$754,826 | \$29,279 | \$784,105 |
| EXPENDITURES: | | | | |
| Salary and Wages | \$287,761 | \$302,519 | \$0 | \$302,519 |
| Fringe Benefits | \$169,877 | \$129,531 | \$0 | \$129,531 |
| Supplies | \$12,449 | \$28,725 | \$0 | \$28,725 |
| Travel | \$6,250 | \$11,073 | \$0 | \$11,073 |
| Communications | \$1,500 | \$1,931 | \$0 | \$1,931 |
| Space Cost | \$34,325 | \$32,935 | \$0 | \$32,935 |
| Other Costs | \$28,735 | \$10,651 | \$0 | \$10,651 |
| Indirect Costs | \$171,615 | \$190,412 | \$0 | \$190,412 |
| Other Cost Distributions | \$52,005 | \$47,049 | \$29,279 ² | \$76,328 |
| TOTAL EXPENDITURES | \$764,517 | \$754,826 | \$29,279 | \$784,105 |

¹ Actual MDCH payments.

² Understated indirect cost allocations (Finding 2).

**Berrien County Health Department
Family Planning
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|----------------------------------|------------------|------------------------|-----------------------------|------------------|
| REVENUES: | | | | |
| Fees and Collections 1st & 2nd | \$30,958 | \$10,665 | \$0 | \$10,665 |
| Fees and Collections 3rd | \$77,000 | \$56,471 | \$0 | \$56,471 |
| Federal Cost Based Reimbursement | \$37,599 | \$37,599 | \$0 | \$37,599 |
| MDCH Grant Federal | \$102,388 | \$102,388 ¹ | \$0 | \$102,388 |
| MDCH Grant State | \$25,080 | \$25,080 ² | \$0 | \$25,080 |
| MCH Funding | \$190,008 | \$190,008 | \$0 | \$190,008 |
| Local Funds Other | \$47,833 | \$72,722 | \$17,348 ³ | \$90,070 |
| TOTAL REVENUES | \$510,866 | \$494,933 | \$17,348 | \$512,281 |
| EXPENDITURES: | | | | |
| Salary and Wages | \$199,843 | \$205,047 | \$0 | \$205,047 |
| Fringe Benefits | \$73,666 | \$51,635 | \$0 | \$51,635 |
| Supplies | \$36,020 | \$22,446 | \$0 | \$22,446 |
| Medical & Pharmaceuticals | \$25,080 | \$25,080 | \$0 | \$25,080 |
| Travel | \$5,700 | \$10,565 | \$0 | \$10,565 |
| Communications | \$140 | \$50 | \$0 | \$50 |
| Space Cost | \$20,513 | \$19,388 | \$0 | \$19,388 |
| Other Expense | \$23,595 | \$19,476 | \$0 | \$19,476 |
| Indirect Costs | \$102,566 | \$113,247 | \$0 | \$113,247 |
| Other Cost Distributions | \$23,743 | \$27,999 | \$17,348 ³ | \$45,347 |
| TOTAL EXPENDITURES | \$510,866 | \$494,933 | \$17,348 | \$512,281 |

¹ Actual MDCH Federal payments provided on a performance reimbursement basis.

² Actual MDCH State payments for medical and pharmaceutical supplies.

³ Understated indirect cost allocations (Finding 2).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Internal Service Funds Reserves Exceed Allowable Amounts

Berrien County's Workers' Compensation, Health Care and Unemployment Internal Service Funds had working capital reserves that exceeded the allowable amounts as of December 31, 2013 according to OMB Circular A-87.

Recommendation: Berrien County devise a plan to ensure the working capital reserves for the Workers' Compensation, Health Care and Unemployment Internal Service Funds are reduced to the allowable limit (60 days cash expenses) by FYE 2017 by either cash refunds or adjustments to future billing rates/allocations.

Comments: Berrien County is aware of the excess reserves and has been making rate adjustments to decrease excess reserves. At the end of 2014, overall working capital reserves decreased by \$2,250,413 from the \$3,843,018 noted in the finding. Excess reserves amounted to \$256,013 for Workers' Compensation, \$1,311,145 for Health Care, and \$25,447 for Unemployment.

Corrective Action: By the end of 2016, the budget, as approved by the Berrien County Board of Commissioners, eliminates the overall excess working capital reserves.

**Anticipated
Completion Date:** End of 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Understated Indirect Cost Allocations

The Health Department did not include all costs in the Community Preventative Health Services cost pool, did not allocate all Community Preventive Health Services to benefitting programs, and did not allocate Public Health Nursing to all benefitting programs.

Recommendation: Implement policies and procedures to ensure all indirect costs are appropriately allocated to benefitting programs.

Comments: Agree with the finding.

Corrective Action: The Health Department will charge administration indirect cost to the PHN and Nurse Supervision cost centers, will remove the amount going back into the PHN and Nurse Supervision cost centers, and will add Family Planning to the PHN allocation.

**Anticipated
Completion Date:** January 2016

MDHHS Response: None