



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

NICK LYON
DIRECTOR

June 22, 2017

Ann Hepfer, RN, BS, Health Officer
Tuscola County Health Department
1309 Cleaver Rd., Suite B
Caro, MI 48723

Dear Ms. Hepfer:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Tuscola 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.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Shannah Havens, CPA, CISA
Audit Division Manager
Population Health and Community Services Program Audit Division

Enclosure

cc: Debra Hallenbeck, Director, Audit Division
Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance
Paulette Dobynes Dunbar, Manager, Division of Maternal and Infant Health
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Audit Report

Tuscola County Health Department
WIC and Family Planning Programs

October 1, 2015 – September 30, 2016



Bureau of Audit, Reimbursement, and Quality Assurance
Population Health and Community Services Program Audit Division
June 2017

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DESCRIPTION OF AGENCY

The Tuscola 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 Tuscola County, which is the reporting entity, and the administrative office is located in Caro, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of two commissioners of Tuscola County and three community members. The Health Department provides community health program services to the residents of Tuscola 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 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 their 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 their 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 salaries and fringes distribution (Finding 1), and internal services fund working capital reserves exceed allowable amounts (Finding 2).

Finding

1. Non-Compliant Salaries and Fringes Distribution

The Health Department did not properly allocate WIC, WIC Breastfeeding, and Family Planning Program employees' salaries and fringes for employees working on multiple activities in accordance with 2 CFR Part 200.

The MDHHS Grant Agreement, Part II, Section III. A. Compliance with Applicable Laws states:

The Grantee will comply with applicable federal and state laws, guidelines, rules and regulations in carrying out the terms of this agreement. The Grantee will also comply with all applicable general administrative requirements such as OMB Circulars covering cost principles, grant/agreement principles, and audits in carrying out the terms of this agreement.

Title 2 CFR Part 200, Subpart E – Cost Principles states the following with respect to compensation:

§ 200.430 Compensation – personal services.

(i) Standards for Documentation of Personnel Expenses

(1) 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...

§ 200.431 Compensation – fringe benefits.

(b) Leave. 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 all of the following criteria are met:

(2) The costs are equitably allocated to all related activities, including Federal awards.

The Health Department develops a scheduled work shift for employees per pay period. If an employee is absent for any reason, the leave time hours are allocated to the programs in which the schedule indicates the employee should have been working on. The Health Department applies the employee's hourly rate by the hours worked in a program and the hours that should have been worked in a program based on personnel activity reports to determine the allocable amount per program. Leave time is allocated to programs on the basis of the scheduled work shift and is included in the sum of hours worked per program on the personnel activity reports. Leave time is not properly allocated to all benefitting programs based on an after-the-fact distribution of actual time. Additionally, the allocation percentage of work performed and work that should have been performed per program is used to allocate fringe benefits. Therefore, the Health Department does not equitably allocate Salaries & Wages and Fringe Benefits to programs based on specific activities worked on.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all salary and fringe distributions are based on records that accurately reflect the work performed as required by 2 CFR 200.

Finding

2. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Tuscola County had two Internal Service Funds which had working capital reserves that exceeded the allowable amount established by 2 CFR Part 200 as of December 31, 2015.

Tuscola County charges most Departments (including the Health Department) for numerous expenses using internal service funds. The funds are used to finance the cost of providing numerous services for their departments. Based on the December 31, 2015 financial statements, the County had accumulated excess balances for two internal service funds.

Title 2 CFR Part 200, Appendix V, Sections G. 3. and G. 4. require comparisons of the charges to the actual allowable costs, and adjustments by one of several methods. Additionally, 2 CFR Part 200, Appendix V, Section G. 2., allows for the establishment and maintenance of a reasonable level of working capital reserve for internal service funds. According to 2 CFR Part 200, a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable.

The following represents an analysis of Tuscola County's Internal Service Funds for the Year Ended December 31, 2015 for the funds that exceed the allowable limit:

Fund	2 CFR Part 200 Adjusted Retained Earnings (A)	60-Day Operating Expenses (B)	Excess (C) (A – B)	Months of Excess (D) ((C / B) x 2)
Worker's Comp. Insurance	\$349,571	\$15,494	\$334,077	43.1
Motor Pool	\$20,159	\$176	\$19,983	227.1

Reductions are needed to achieve compliance with Federal cost principles for the funds above with excess working capital reserves. During our review of working capital reserves, we discovered the 60-day operating expenses used in the County's analysis were incorrect. After following-up with the consulting group, it was determined that the formula used for the 60-day operating expenses had errors and

the amount used was incorrect. We were informed that the formula has been corrected for future year calculations.

Recommendation

We recommend that Tuscola 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 2018 by either cash refunds or adjustments to future billing rates/allocations. We also recommend that Tuscola County ensure that the working capital reserves analysis is accurately calculated in future years.

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 \$271,659, \$42,661, and \$62,738; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments.

**Tuscola 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	\$271,659	\$271,659 ¹		\$271,659
Local Funds - Other	\$1,071	\$4,826		\$4,826
TOTAL REVENUES	\$272,730	\$276,485	\$0	\$276,485
EXPENDITURES:				
Salary & Wages	\$120,338	\$120,880		\$120,880
Fringe Benefits	\$63,357	\$67,285		\$67,285
Supplies & Materials	\$6,311	\$5,783		\$5,783
Travel	\$986	\$261		\$261
Communication	\$874	\$913		\$913
County-City Central Services	\$921	\$930		\$930
Space Costs	\$8,239	\$8,238		\$8,238
Other	\$6,566	\$5,212		\$5,212
Indirect Costs	\$34,854	\$36,621		\$36,621
Other Costs Distributions	\$30,284	\$30,362		\$30,362
TOTAL EXPENDITURES	\$272,730	\$276,485	\$0	\$276,485

¹ Actual MDHHS payments.

**Tuscola 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	\$42,661	\$42,661 ¹		\$42,661
Local Funds - Other	\$916	\$1,236		\$1,236
TOTAL REVENUES	\$43,577	\$43,897	\$0	\$43,897
EXPENDITURES:				
Salary & Wages	\$16,972	\$16,260		\$16,260
Fringe Benefits	\$14,534	\$14,510		\$14,510
Supplies & Materials	\$97	\$1,318		\$1,318
Travel	\$25	\$81		\$81
Communication	\$85	\$120		\$120
County-City Central Services	\$131	\$123		\$123
Space Costs	\$1,376	\$1,356		\$1,356
Other	\$228	\$228		\$228
Indirect Costs	\$5,919	\$5,989		\$5,989
Other Costs Distributions	\$4,210	\$3,912		\$3,912
TOTAL EXPENDITURES	\$43,577	\$43,897	\$0	\$43,897

¹ Actual MDHHS payments.

**Tuscola 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	\$62,738	\$62,738 ¹		\$62,738
Fees & Collections - 1st & 2nd Party	\$7,000	\$4,212		\$4,212
Fees & Collections - 3rd Party	\$42,200	\$43,115		\$43,115
Federal Cost Based Reimbursement	\$67,350	\$64,463		\$64,463
Required Match - Local	\$11,500	\$11,327		\$11,327
Local Funds - Other	\$500	\$2,172		\$2,172
TOTAL REVENUES	\$191,288	\$188,027	\$0	\$188,027
EXPENDITURES:				
Salary & Wages	\$67,501	\$60,475		\$60,475
Fringe Benefits	\$39,689	\$36,355		\$36,355
Supplies & Materials	\$23,647	\$35,806		\$35,806
Travel	\$350	\$675		\$675
Communication	\$488	\$458		\$458
County-City Central Services	\$517	\$512		\$512
Space Costs	\$8,557	\$8,557		\$8,557
Other	\$13,203	\$10,980		\$10,980
Indirect Costs	\$20,338	\$18,845		\$18,845
Other Costs Distributions	\$16,998	\$15,364		\$15,364
TOTAL EXPENDITURES	\$191,288	\$188,027	\$0	\$188,027

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: **Non-Compliant Salaries and Fringes Distribution**

The Health Department did not properly allocate WIC, WIC Breastfeeding, and Family Planning Program employees' salaries and fringes for employees working on multiple activities in accordance with 2 CFR Part 200.

Recommendation: Adopt policies and procedures to ensure that all salary and fringe distributions are based on records that accurately reflect the work performed as required by 2 CFR 200.

Comments: Tuscola County Health Department allocates salary and fringe expenses based on time recorded by staff on a staff daily activity form. When paid time off (PTO) is taken staff will record PTO hours based on which program they were scheduled to work in on the paid day off, or staff will allocate the PTO hours to multiple programs based on budgeted FTEs. It is our understanding this practice as it relates to the PTO distribution does not necessarily reflect work performed.

Corrective Action: A new subprogram will be created in the practice management system and will be used to record all paid time off (PTO) hours. This new subprogram will be excluded from the initial calculation performed to allocate salary and fringe expenses. All PTO hours will undergo a secondary distribution based on the initial calculation on actual work hours.

Anticipated

Completion Date: New procedures will be effective on July 1, 2017.

MDHHS Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Tuscola County had two Internal Service Funds which had working capital reserves that exceeded the allowable amount established by 2 CFR Part 200 as of December 31, 2015.

Recommendation: Devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2018 by either cash refunds or adjustments to future billing rates/allocations. Also, ensure that the working capital reserves analysis is accurately calculated in future years.

Comments: Tuscola County operated under a self-funded Workman's Compensation (WC) program for many years. With the self-funded WC program the county was responsible for per incident claims of up to \$250,000 before stop loss insurance paid for claims cost. Substantial reserves had to be maintained under this self-funded WC program obligation to pay claims up to \$250,000.

In 2011, county officials established the Motor Pool fund to account for the growing needs of child care transportation. This fund is used to charge vehicle fuel and maintenance costs as well as reserves to periodically purchase a vehicle for the specific needs of transporting juveniles.

Corrective Action: The County has since changed to a large group premium based WC plan through the Michigan Association of Counties. This new WC plan does not require the county to maintain reserves. County officials started eliminating or reducing the balance in the county WC fund by charging the county WC fund annual premium costs instead of charging other county funds and grants for these costs. In fact, since 2013 the county has reduced the WC fund reserves by \$202,645. The county will continue to reduce the reserves in this manner and it is expected to have the reserves reduced to the reasonable 60 day operating level guideline by 12-31-2018.

In 2017, plans are underway to purchase the much needed newer vehicle and this will reduce the Motor Pool fund balance within the reasonable 60 day operating reserves. However, we will need to grow these reserves again in the future in the same manner for another possible vehicle purchase.

Anticipated

Completion Date: 12/31/2018.

MDHHS Response: None.