



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT, REIMBURSEMENT AND QUALITY ASSURANCE
CAPITOL COMMONS CENTER • 400 SOUTH PINE • LANSING, MICHIGAN 48913

NICK LYON
DIRECTOR

March 8, 2018

Kathy Moore, Health Officer
Muskegon County Health Department
209 E. Apple Avenue
Muskegon, MI 49442

Dear Ms. Moore:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Muskegon County Health Department WIC 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.

As noted in Finding 1, a total of \$9,309 is due back to MDHHS. Please remit a check payable to the State of Michigan for \$9,309 to the following address by April 9, 2018:

Cash Receipting
PO Box 30437
Lansing, MI 48933

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 Section Manager
Population Health and Community Services Section
Audit Division

cc: Debra Hallenbeck, Director, Audit Division
Brittany LaRue, Manager, Financial Management & FMNP Unit
Mary McGrath, Manager, Revenue Section
Kidada Smith, Manager, Contract Payable Section
Bryce Wooton, Auditor, Population Health and Community Services Section
Matthew Tompkins, Auditor, Population Health and Community Services Section
Nancy Bramer, PH Finance Supervisor, Muskegon County Health Department

Audit Report

Muskegon County Health Department
WIC Program

October 1, 2015 – September 30, 2016



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

March 2018

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DESCRIPTION OF AGENCY

The Muskegon 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 Muskegon County, and the administrative office is located in Muskegon, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Muskegon County. The Health Department provides community health program services to the residents of Muskegon 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 Women, Infants, and Children (WIC) Program was funded by MDHHS grant funds. Grant funding from MDHHS for the WIC Program is federal funding under federal catalog number 10.557.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program financial reporting, and to determine the MDHHS share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in reporting its WIC 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 share of cost for the WIC Program 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 concerns.
- Reviewed the completed Subrecipient Questionnaire.

- Reconciled the WIC Program Financial Status Report (FSR) 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 WIC equipment inventory records.
- 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.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

FINANCIAL REPORTING

Objective 1: To assess the Health Department's effectiveness in reporting its WIC 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 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: Inaccurate FSR reporting (Finding 1), non-compliant fringe benefit distribution (Finding 2), and internal service fund working capital reserves exceed allowable amounts (Finding 3).

Finding

1. Inaccurate FSR Reporting

The Health Department did not accurately report total expenditures on its FSR.

The grant agreement between MDHHS and the Health Department, Part II, section IV. C. Financial Status Report Submission states: "The monthly FSRs must reflect total actual program expenditures, regardless of the source of funds."

During our review, we noted that the Health Department over reported total actual program expenditures by \$9,309. Prior to our fiscal review, the Health Department reconciled its expenditures to the FSR report and identified FSR reporting errors for both its direct and indirect expenditures. The Health Department proactively calculated and recorded a payable for \$9,309 as the amount of funds due back to MDHHS.

Adjustments reflecting the change in WIC Program direct and indirect expenditures are shown on the attached Statement of Grant Program Revenues and Expenditures. The inaccurate reporting to the FSR has impacted MDHHS Grant funds and the amount of \$9,309 is due back to MDHHS.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that total actual program expenditures are reported on its FSR to ensure compliance with its grant agreement.

Finding

2. Non-Compliant Fringe Benefits Distribution

The Health Department did not properly allocate WIC 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. The 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 3 (25%) of 12 Health Department employees' leave time was allocated based on the employees' work schedules. 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. We also noted that 1 (8.33%) of 12 employees' personnel activity reports did not include any hours to the WIC Program, however the Health Department erroneously recorded \$182 of leave time to the WIC Program. Since the over-reported amount was deemed immaterial, no adjustment to the attached Statement of Grant Program Revenues and Expenditures was made.

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

3. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Muskegon County had 3 (50%) of 6 Internal Service Funds with working capital reserves that exceeded the allowable amount established by 2 CFR Part 200.

Muskegon 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 September 30, 2016 financial statements, the County had accumulated excess balances for three internal service funds.

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.

The following represents an analysis of Muskegon County's Internal Service Funds for the Year Ended September 30, 2016 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)
Office Services Fund	\$89,428	\$82,735	\$6,693	0.2
Sheriff Garage Fund	\$16,340	\$330	\$16,010	97.0
Energy Improvements Funds	\$766,154	\$2,783	\$763,371	548.6

Reductions are needed to achieve compliance with Federal cost principles for the funds above with excess working capital reserves.

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 2019 by either cash refunds or adjustments to future billing rates/allocations.

MDHHS SHARE OF COST AND BALANCE DUE

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

Conclusion: The MDHHS obligation under the WIC Program for fiscal year ended September 30, 2016 is \$1,018,565. The attached Statement of Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made adjustments which impacted WIC Program Grant funds. A balance of \$9,309 is due from the Health Department.

**Muskegon 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	\$1,069,877	\$1,027,874 1	(\$9,309) 2	\$1,018,565
TOTAL REVENUES	\$1,069,877	\$1,027,874	(\$9,309)	\$1,018,565
EXPENDITURES:				
Salary & Wages	\$447,208	\$399,497		\$399,497
Fringe Benefits	\$268,835	\$215,631		\$215,631
Contractual	\$1,200	\$1,373		\$1,373
Supplies & Materials	\$33,375	\$66,681		\$66,681
Travel	\$1,700	\$1,123		\$1,123
Communication	\$3,250	\$3,549		\$3,549
Space Costs	\$19,500	\$18,387	\$1,566 2	\$19,953
All Others	\$12,700	\$23,732	(\$3,500) 2	\$20,232
Other Costs Distributions	\$282,109	\$297,900	(\$7,375) 2	\$290,525
TOTAL EXPENDITURES	\$1,069,877	\$1,027,874	(\$9,309)	\$1,018,565

1 Actual MDHHS payments.

2 Inaccurate FSR Reporting (Finding #1)

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Inaccurate FSR Reporting

The Health Department did not accurately report total expenditures on its FSR.

Recommendation: Implement policies and procedures to ensure that total actual program expenditures are reported on its FSR to ensure compliance with its grant agreement.

Comments: Public Health – Muskegon County (PHMC) agrees with Finding #1 and the recommended corrective action. Due to timing constraints, FSRs are often prepared and submitted prior to periodic adjustments and/or final audit. In this instance, PHMC identified the FSR reporting errors and proactively recorded the payable due back to MDHHS.

Corrective Action: PHMC has established a procedure to alert the Health Officer and Finance Supervisor if/when actual expenditures are adjusted for any reason subsequent to the FSR submission. The MDHHS program representative will be notified via email and phone call, the FSR will be updated in the state's EGrAMS system, and a journal entry will be completed to document the "due from" or "due to" the State of Michigan accordingly within 10 days of the correction.

Person Responsible for Implementation: Nancy Bramer, Public Health Finance Supervisor

**Anticipated
Completion Date:** April 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

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

The Health Department did not properly allocate WIC 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: PHMC agrees with Finding #2 and the recommended corrective action. PHMC employees' leave time and related fringe benefits were allocated within the payroll system by default based on budgeted FTE percentages and/or work schedule. PHMC then relied on staff to make after-the-fact adjustments to reflect the actual work performed in multiple activities. There was no specific control measure in place to ensure that PHMC captured all occurrences, so occasionally, instances were overlooked.

Corrective Action: PHMC has established a procedure to calculate and allocate leave time for employees working in multiple activities prior to posting for payroll purposes to ensure compliance with 2 CFR Part 200.

Person Responsible for Implementation: Nancy Bramer, Public Health Finance Supervisor

Anticipated Completion Date: April 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

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

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 2019 by either cash refunds or adjustments to future billing rates/allocations.

Comments: PHMC agrees with Finding #3 and the recommended corrective action.

Corrective Action: PHMC will coordinate corrective action with Muskegon County's finance division to devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit by FYE 2019 by either cash refunds or adjustments to future billing rates/allocations.

Person Responsible for Implementation:

Kathy Moore, Public Health Director/Health Officer
Dwight Avery, Muskegon County Accounting Manager
Nancy Bramer, Public Health Finance Supervisor

Anticipated Completion Date:

PHMC will forward a recommendation/proposal to the Muskegon County Accounting Manager by April 1, 2018. Follow-up from the responsible party will ensure that a plan to correct and reduce

working capital reserves is adopted prior to the FY 2019 budget approval.

MDHHS Response None