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July 18, 2018

William Ridella, MPH, MBA
Health Officer / Director
Macomb County Health Department
43525 Elizabeth Road
Mt. Clemens, Michigan 48043

Dear Mr. Ridella:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Macomb County Health Department WIC and Family Planning Programs 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 the MDHHS 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
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cc: Debra Hallenbeck, Director, Audit Division
Christina Herring, Director, WIC Division
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Audit Report

Macomb County Health Department
WIC and Family Planning Programs

October 1, 2015 – September 30, 2016



Bureau of Audit
Audit Division
July 2018

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DESCRIPTION OF AGENCY

The Macomb 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 Macomb County, which is the reporting entity, and the administrative office is located in Mount Clemens, Michigan. The Health Department operates under the legal supervision and control of the County Executive Officer. The Health Department provides community health program services to the residents of Macomb County.

FUNDING METHODOLOGY

The Health Department services were funded from local appropriations, fees and collections, and grant programs administered through the Michigan Department of Health and Human Services (MDHHS). 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 and Other Local Funds. Grant funding from MDHHS for the WIC Program was 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 was federal funding under federal catalog numbers 93.217 and 93.994, and was subject to performance requirements. That is, reimbursement from MDHHS was 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 share of costs for the WIC 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 and Family Planning Programs 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 equipment purchases over \$2,500 for WIC Program and \$5,000 for Family Planning Program.
- 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 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: inaccurate indirect cost allocation (Finding 1) and inaccurate recording of fees and collections (Finding 2).

Finding

1. Inaccurate Indirect Cost Allocation

The Health Department did not properly allocate indirect costs to the WIC Breastfeeding Program.

Title 2 CFR 200.405(b) for Allocable Costs states, "All activities which benefit from the non-Federal unit's indirect cost...will receive an appropriate allocation of indirect costs."

During our review, we noted that the Health Department did not allocate or report any indirect costs to its WIC Breastfeeding Program. The Health Department's indirect cost allocation base is calculated on the benefiting Programs' salaries, wages, and fringe benefits. However, the WIC Breastfeeding Program outsources its staffing to an outside contractor, and as a result, the Program has no salary, wage, or fringe benefit expenditures and is excluded from the Health Department's indirect cost calculation.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that indirect costs are properly allocated to all benefitting programs to ensure compliance with Federal regulation.

Finding

2. Inaccurate Recording of Fees and Collections

The Health Department did not have sufficient controls in place to ensure that all fees and collections were accurately recorded in its accounting system.

Title 2 CFR 200.302(b)(3) states the non-Federal entity's financial management system must provide, "Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation." Additionally, Title 2 CFR 200.303 (a) states, "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."

During our review, we noted that the Health Department inaccurately recorded four (22%) of 18 insurance payments that resulted in an overstatement of \$189 for third-party payments on the Health Department's general ledger. We also noted that the Health Department inaccurately recorded one (5%) of 20 private payments that resulted in an understatement of \$20 for first and second-party payments. As a result, the net effect on the Health Department's general ledger was an overstatement of \$169 in revenue for the Family Planning Program.

The Statement of Grant Program Revenues and Expenditures show adjustments to the fees and collections lines to reflect supported amounts. These adjustments had no effect on Family Planning Program grant funds.

Recommendation

We recommend that the Health Department implement sufficient controls to ensure all fees and collections are accurately recorded in its accounting system to ensure compliance with Federal regulation.

MDHHS SHARE OF COSTS AND BALANCE DUE

Objective 2: To determine the MDHHS share of costs for the WIC 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 obligation under the WIC, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2016 are \$1,863,843, \$47,956, and \$319,903, respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments to the Family Planning Program but none affected the Family Planning Program grant funding.

**Macomb 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	\$1,863,843	\$1,863,843 ¹		\$1,863,843
Fees & Collections - 1st & 2nd Party	\$449,193	\$359,059		\$359,059
TOTAL REVENUES	\$2,313,036	\$2,222,902	\$0	\$2,222,902
EXPENDITURES:				
Salary & Wages	\$834,397	\$833,228		\$833,228
Fringe Benefits	\$572,623	\$520,190		\$520,190
Contractual	\$256,000	\$261,213		\$261,213
Supplies & Materials	\$75,838	\$65,528		\$65,528
Travel	\$16,000	\$10,854		\$10,854
Communication	\$15,938	\$17,029		\$17,029
County-City Central Services	\$329,382	\$329,382		\$329,382
Space Costs	\$10,209	\$10,209		\$10,209
All Others	\$32,976	\$21,592		\$21,592
Indirect Costs	\$169,673	\$153,677		\$153,677
TOTAL EXPENDITURES	\$2,313,036	\$2,222,902	\$0	\$2,222,902

¹ Actual MDHHS payments.

**Macomb 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	\$52,152	\$47,956 ¹		\$47,956
Local Funds - Other	\$6,982	\$0		\$0
TOTAL REVENUES	\$59,134	\$47,956	\$0	\$47,956
EXPENDITURES:				
Contractual	\$36,286	\$29,370		\$29,370
Supplies & Materials	\$1,632	\$318		\$318
Travel	\$3,800	\$1,889		\$1,889
Communication	\$1,200	\$1,198		\$1,198
County-City Central Services	\$15,216	\$15,181		\$15,181
Other	\$1,000	\$0		\$0
TOTAL EXPENDITURES	\$59,134	\$47,956	\$0	\$47,956

¹ Actual MDHHS payments.

**Macomb 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	\$372,973	\$319,903 ¹		\$319,903
Fees & Collections - 1st & 2nd Party	\$48,300	\$24,582	\$20 ²	\$24,602
Fees & Collections - 3rd Party	\$197,352	\$129,541	(\$189) ²	\$129,352
Federal Cost Based Reimbursement	\$223,817	\$568,270		\$568,270
Local Funds - Other	\$192,838	\$48,470	\$169 ²	\$48,639
TOTAL REVENUES	\$1,035,280	\$1,090,766	\$0	\$1,090,766
EXPENDITURES:				
Salary & Wages	\$433,203	\$481,544		\$481,544
Fringe Benefits	\$214,228	\$245,121		\$245,121
Contractual	\$7,000	\$5,398		\$5,398
Supplies & Materials	\$117,900	\$99,950		\$99,950
Travel	\$11,010	\$9,979		\$9,979
Communication	\$6,265	\$6,983		\$6,983
County-City Central Services	\$114,762	\$128,888		\$128,888
Space Costs	\$2,750	\$1,789		\$1,789
Other	\$50,087	\$28,603		\$28,603
Indirect Costs	\$78,075	\$82,511		\$82,511
TOTAL EXPENDITURES	\$1,035,280	\$1,090,766	\$0	\$1,090,766

¹ Actual MDHHS payments.

² Inaccurate Recording of Fees and Collections (Finding 3)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Inaccurate Indirect Cost Allocation**

The Health Department did not properly allocate indirect costs to the WIC Breastfeeding Program.

Recommendation: Adopt policies and procedures to ensure that indirect costs are properly allocated to all benefitting programs to ensure compliance with Federal regulation.

Comments: None

Corrective Action: The Macomb County Health Department will create policies and procedures to accurately distribute administrative costs to all benefitting cost centers in accordance to Federal guidelines.

Person Responsible for Implementation: Patrick DeTine, Financial Services Manager

Anticipated Completion Date: Beginning of fiscal year 2018-2019.

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Inaccurate Recording of Fees and Collections

The Health Department did not have sufficient controls in place to ensure that all fees and collections were properly recorded in its accounting system.

Recommendation: Implement sufficient controls to ensure all fees and collections are properly recorded in its accounting system to ensure compliance with Federal regulation.

Comments: None

Corrective Action: Macomb County Health Department will institute internal reviews on a quarterly basis that will examine random samples of client records to verify the accuracy of fee reporting and posting.

Person Responsible for Implementation: Patrick DeTine, Financial Service Manager

Anticipated Completion Date: Beginning of fiscal year 2018/2019

MDHHS Response: None

Comments and Recommendations

1. **Non-Compliant Fringe Benefit Distribution and Supporting Documentation of Personnel Expenses**

The Health Department did not properly allocate its employees' fringe benefit expenditures to the Family Planning Program. In addition, the Health Department did not properly complete its Inter-Departmental Program Time Sheets to properly support its salary, wage, and fringe benefit expenditures charged to multiple activities (or programs).

Title 2 CFR 200.430(i) for Compensation states, "(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed... (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities..." 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 charged employee leave time to the employee's designated Program, instead of properly allocating leave time to all programs that the employee actually worked. We also noted, when an employee works in programs other than their designated program, the employee must record the amount of time worked on the Health Department's Inter-Departmental Program Time Sheets. However, the employee should track all of their time worked during the pay period, not only the hours worked outside their designated program. We recommend that the Health Department implement policies and procedures to ensure all fringe benefit distributions are based on records that accurately reflect the work performed. We also recommend that the Health Department complete its timesheets for all hours worked during the pay period, to ensure compliance with Federal regulation.

Management's Response: The Department will institute a process in which employees who work in more than one cost center will complete transfer sheets that include all hours within that pay period. This will account for all paid hours and the proper distribution of all leave types.

2. Not Charging Family Planning Clients Based on Ability to Pay

The Health Department did not consistently charge its clients based on ability to pay.

Title 42 CFR 59.5 (a)(8) states that each grantee must, “Provide that charges will be made for services to persons other than those from low-income families in accordance with a schedule of discounts based on ability to pay, except that charges to persons from families whose annual income exceeds 250 percent of the levels set forth in the most recent Poverty Guidelines issued pursuant to 42 U.S.C 9902(2) will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services.”

During our review, we noted six (24%) of 25 sample encounters where the sliding fee scale was not properly applied. We recommend that the Health Department implement controls to ensure that all clients are charged based on ability to pay according to the sliding fee scale to ensure compliance with Federal regulation.

Management’s Response: The Family Planning staff will be notified of the recommendation and the proper procedures will be reviewed and discussed with the staff.

3. Non-Compliant Billings to Family Planning Program Third Party Payers

The Health Department did not always charge third party payers at the actual procedure cost.

Title 42 CFR 59.5 (a)(9) states, “If a third party (including a Government agency) is authorized or legally obligated to pay for services, all reasonable efforts must be made to obtain the third party payment without application of any discounts.” In addition, the MDHHS Title X Family Planning Program Standards & Guidelines, Part II, Section C.8, Subsection 8.4.6, further states, “Where there is legal obligation or authorization for third party reimbursement, including public or private sources, all reasonable efforts must be made to obtain third party payment without application of any discounts.”

During our review, we noted 24 (96%) of 25 third party billings, that the Health Department billed the third party payer at the insurance contract’s reimbursement rate instead of the fee schedule rate. We recommend that the Health Department bill third party payers without the application of any discounts, to ensure compliance with both Federal regulation and the State’s Title X guidelines.

Management’s Response: The Department electronic health records (EHR) currently reflect the same fees for the procedure codes regardless of payer.

4. Non-Compliant Contract Provisions with SEMHA

The Health Department did not have sufficient controls in place to ensure its contract with Southeastern Michigan Health Association (SEMHHA) was in compliance with the contract provisions in 2 CFR 200, Appendix II.

Title 2 CFR 200, Appendix II states, "In addition to other provisions required by the Federal agency or non-Federal entity, all contracts made by the non-Federal entity under the Federal Award must contain provisions covering the following, as applicable. (A) Contracts for more than the simplified acquisition threshold currently set as \$150,000...must address administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as appropriate. (B) All contracts in excess of \$10,000 must address termination for cause and for convenience by the non-Federal entity including by which it will be effected and the basis for settlement..." The MDHHS Grant Agreement Part II, Section I, also states that there must be a written and executed subcontract prior to the initiation of any subcontract activity.

During our review, we noted that the Health Department executed a memorandum of agreement (MOA) with SEMHA in June 1999 to provide staffing to operate various Federal programs offered by the Health Department. Part of the agreement terms was an automatic renewal for successive one-year periods unless terminated by either party. Reviewing the original agreement provisions, we noted that it was not in compliance with 2 CFR 200 Appendix II. We recommend the Health Department review 2 CFR 200, Appendix II, update the contract provisions, and execute a current contract with SEMHA. We also recommend the Health Department implement sufficient controls to monitor its contracts to ensure the provisions are in compliance with Federal regulation.

Management's Response: The Macomb County Health Department will be in contact with SEMHA to amend the current contract with the appropriate language to satisfy appendix II of 2 CFR 200.

5. Lack of Cost Analysis for SEMHA Contract

The Health Department did not perform a cost or price analysis prior to executing its MOA with SEMHA.

Title 2 CFR 200.323(a) states, "The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals."

During our review, we noted that the MOA between SEMHA and the Macomb County Health Department was executed in June 1999 as noted in Comment 4. We also noted the Health Department never performed a cost analysis since the MOA was originally executed in 1999, to determine if SEMHA's costs are fair and reasonable for similar work performed. We recommend the Health Department perform a cost analysis prior to executing or renewing its SEMHA contract, to ensure compliance with Federal regulation.

Management's Response: The Macomb County Health Department will analyze the costs related to the SEMHA services in relation to other alternatives.