



STATE OF MICHIGAN

GRETCHEN WHITMER
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

ROBERT GORDON
DIRECTOR

June 27, 2019

Rashmi Travis, Health Officer
Jackson County Health Department
1715 Lansing Avenue
Jackson, Michigan 49202

Dear Ms. Travis:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Jackson County Health Department Women, Infants, and Children (WIC) Program 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; Conclusion, Finding, and Recommendation; Statements of Grant Program Revenues and Expenditures; Corrective Action Plan; and Comments and Recommendations. The Corrective Action Plan and Comments and Recommendations 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,

A handwritten signature in black ink that reads "Shannah M. Havens".

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
Kelly Voegeding, Financial Analyst, WIC Division
Matthew Tompkins, Auditor, Population Health and Community Services Programs Section
LaTasha Thompson, Financial Services Manager, Jackson County Health Department

Audit Report

Jackson County Health Department

Women, Infants, and Children Program

October 1, 2016 – September 30, 2017



Bureau of Audit

Audit Division

June 2019

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives	1
Scope and Methodology.....	1
 <u>Conclusions, Findings, and Recommendations</u>	
<u>Financial Reporting</u>	2
1. Unallowable Expenditures Charged to WIC Program.....	2
2. Unallowable Indirect Expenditures Allocated to WIC Program	4
3. Non-Compliant Allocation of Cash Payments in Lieu of Health Insurance Benefits	5
4. Internal Service Fund Working Capital Reserve Exceeded Allowable Limit	6
<u>MDHHS Shares of Cost and Balance Due</u>	7
Statement of Grant Program Revenues and Expenditures – WIC Resident Services	8
Statement of Grant Program Revenues and Expenditures – WIC Breastfeeding.....	9
Corrective Action Plans	10

DESCRIPTION OF AGENCY

The Jackson County Health Department is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Jackson County, and the administrative office is located in Jackson, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Jackson County. The Health Department provides community health program services to the residents of Jackson 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, Fees and Collections, and Other Local 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 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 period October 1, 2016 to September 30, 2017. Our audit procedures included the following:

- Reviewed the most recent Health Department's Single Audit and Financial Statement Audit Reports for any WIC Program related concerns.
- Reviewed the Grant Agreement, Budgets, and Program Specific Assurances and Requirements.
- Reviewed policies to ensure they meet applicable requirements and guidelines.

- Reviewed the most recently completed Subrecipient Questionnaire.
- Reconciled the WIC Program Financial Status Reports (FSRs) and MDHHS payment schedules to the accounting records.
- Tested a selection of payroll and non-payroll expenditures for program compliance; and adherence to policies, Federal and program guidelines and approval procedures.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed equipment purchases over \$2,500 for the WIC Program.
- 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 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 financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, program standards, and generally accepted accounting principles. We identified the following exceptions: unallowable expenditures charged to the WIC Program (Finding 1), unallowable indirect expenditures allocated to the WIC Program (Finding 2), non-compliant allocation of cash payments in lieu of health insurance benefits (Finding 3), and internal service fund working capital reserve exceeded allowable limit (Finding 4).

Finding 1

1. Unallowable Expenditures Charged to the WIC Program

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

The Health Department recorded unallowable expenditures to the WIC Program. Also, the Health Department did not properly allocate all costs proportionately to the benefitting Federal programs.

Title 2 CFR 200.437(a) states, “Costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable.” It goes on to state in (b) that “Such costs will be equitably apportioned to all activities of the non-Federal entity.” Also, Title 2 CFR 200.438 states that “Costs of entertainment, including amusement, diversion, and social activities and any associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal award or with prior written approval of the Federal awarding agency.” In addition, Title 2 CFR 200.403 states costs must “be necessary and reasonable for the performance of the Federal award” to be allowable.

Furthermore, Title 2 CFR 200.470(a)(1) states, “Taxes that a government unit is legally required to pay are allowable.”

During our review, we noted the following three (12%) of 25 WIC expenditures, for \$670, were unallowable:

- Escape Room retreat expense for \$570
- Food and beverages for a meeting for \$44
- Sales tax paid on break room furniture for \$56

The Health Department did not have documented policies for the improvement of working conditions and employer-employee relations to support the retreat or meeting. We also noted that the retreat and meeting included staff outside of the WIC program; however, the Health Department charged the entire expense to the WIC Program. No adjustments will be made since the Health Department covered the costs with local funding.

Recommendation

We recommend the Health Department implement policies and procedures to ensure only allowable expenditures are recorded to the WIC Program and costs are allocated to all benefitting programs to ensure compliance with Federal regulations and the County's policies.

Finding

2. Unallowable Indirect Expenditures Allocated to WIC Program

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

The Health Department allocated unallowable indirect expenditures to the WIC Program. Also, the Health Department did not provide sufficient supporting documentation for one indirect expenditure allocated to the WIC Program.

Title 2 CFR 200.437(a) states, "Costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable." Also, 2 CFR 200.403 Factors affecting allowability of costs states that costs must "(a) Be necessary and reasonable for the performance of the Federal award... (g) Be adequately documented" to be allowable. In addition, Title 2 CFR 200.302(b) states, "The financial management system of each non-Federal entity must provide for 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 indirect costs review, we noted the following four (16%) of 25 administration expenditures, for \$1,332, were unallowable and that the gift certificates purchased were not supported by a vendor invoice or receipt:

- Food and supplies for an annual staff meeting for \$85
- Gift certificates for staff for \$930
- Holiday breakfast for \$263
- Trophies for annual staff award ceremony for \$54

We recalculated a new indirect cost rate, adjusting for the unallowable indirect expenses identified above, and noted that the impact to both WIC Residents Services and WIC Breastfeeding was \$224. No adjustments will be made since the Health Department covered costs that exceeded the amounts paid for the allocated items with local funding.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all indirect costs are allowable and sufficient supporting documentation is obtained and retained to ensure compliance with Federal regulations.

Finding

3. Non-Compliant Allocation of Cash Payments in Lieu of Health Insurance Benefits

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

The Health Department did not properly allocate its biweekly cash payments in lieu of health insurance for employees working on multiple activities.

Title 2 CFR 200.430 Compensation states, “(a) Compensation for personal services includes all remuneration, paid currently or accrued, for services of employees rendered during the period of performance under the Federal award, including but not necessarily limited to wages and salaries. Compensation for personal services may also include fringe benefits... Costs of compensation are allowable to the extent that they satisfy the specific requirements of this Part, and that the total compensation for the individual employees: ...(3) Is determined and supported as provided in paragraph (i) of this section...” Title 2 CFR 200.430(i)(1) states, “Charges to Federal awards...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...”

The Health Department offers employees the option to forego hospitalization insurance and in lieu of this coverage will pay the employee \$125 each pay period. During our salaries and wages review, we noted that cash payments made to employees working both in WIC and non-WIC Programs were allocated 100% to the WIC Program although staff did not always work 100% in the WIC Program. No adjustments will be made since the grant was fully exhausted and the Health Department covered costs that exceeded the amounts paid for the insurance with local funding.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all cash payments in lieu of health insurance costs are allocated based on actual work performed.

Finding

4. Internal Service Fund Working Capital Reserve Exceeded Allowable Limit

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

Jackson County had one Internal Service Fund with a working capital reserve that exceeded the allowable limit established by 2 CFR 200.

Jackson 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 one internal service fund.

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. This further states that 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 Jackson County's Internal Service Fund for the Year Ended December 31, 2015, for the fund that exceeded 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)
Self-Insured Workers Compensation	\$73,785	\$15,373	\$58,412	7.6

Reduction is needed to achieve compliance with Federal cost principles for the fund above with the excess working capital reserve.

Recommendation

We recommend that Jackson County devise a plan to ensure the Internal Service Fund working capital reserve is reduced to the allowable limit (60 days cash expenses) by FYE 2020 by either cash refunds or adjustments to future billing rates/allocation.

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 \$853,419 for the WIC Resident Services Grant, and \$45,000 for the WIC Breastfeeding Grant. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments.

**Jackson County Health Department
WIC Residential Services
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$853,419	\$853,419 ¹		\$853,419
Fees & Collections - 1st & 2nd Party	\$0	\$657		\$657
Fees & Collections - 3rd Party	\$10,000	\$8,630		\$8,630
Local Funds - Other	\$219,845	\$180,894		\$180,894
TOTAL REVENUES	\$1,083,264	\$1,043,600	\$0	\$1,043,600
EXPENDITURES:				
Salary & Wages	\$470,067	\$468,227		\$468,227
Fringe Benefits	\$192,257	\$171,394		\$171,394
Supplies & Materials	\$55,900	\$48,100		\$48,100
Travel	\$900	\$1,067		\$1,067
Communication	\$2,500	\$2,354		\$2,354
Other	\$10,780	\$7,574		\$7,574
Indirect Costs	\$350,860	\$344,884		\$344,884
TOTAL EXPENDITURES	\$1,083,264	\$1,043,600	\$0	\$1,043,600

¹ Actual MDHHS payments.

**Jackson County Health Department
WIC Breastfeeding
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$45,000	\$45,000 ¹		\$45,000
Local Funds - Other	\$1,441	\$29		\$29
TOTAL REVENUES	\$46,441	\$45,029	\$0	\$45,029
EXPENDITURES:				
Salary & Wages	\$31,000	\$30,862		\$30,862
Fringe Benefits	\$3,801	\$3,422		\$3,422
Supplies & Materials	\$500	\$45		\$45
Other	\$700	\$415		\$415
Indirect Costs	\$10,440	\$10,285		\$10,285
TOTAL EXPENDITURES	\$46,441	\$45,029	\$0	\$45,029

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: **Unallowable Expenditures Charged to the WIC Program**

The Health Department recorded unallowable expenditures to the WIC Program. Also, the Health Department did not properly allocate all costs proportionately to the benefitting Federal programs.

Recommendation: Implement policies and procedures to ensure only allowable expenditures are recorded to the WIC Program and costs are allocated to all benefitting programs to ensure compliance with Federal regulations and the County's policies.

Comments: In prior years, the Health Department received verbal approval from MDHHS for employee retreats. However, it is noted that a department policy is needed based on audit and federal guidance. Lastly, the procedure to avoid sales tax if possible, will be implemented immediately.

Corrective Action: A written 'Employee Health & Welfare & Entertainment Costs' policy has been completed and provided to the MDHHS representative. The Health Department will ensure that sales tax is avoided on future purchases by setting up tax exempt accounts with common vendors and communicating policy to all staff.

Person Responsible for Implementation: The Health Officer, Directors and Accounting Department will work together to address issue.

Anticipated Completion Date: October 2019

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: **Unallowable Indirect Expenditures Allocated to WIC Program**

The Health Department allocated unallowable indirect expenditures to the WIC Program. Also, the Health Department did not provide sufficient supporting documentation for one indirect expenditure allocated to the WIC Program.

Recommendation: Adopt policies and procedures to ensure that all indirect costs are allowable and sufficient supporting documentation is obtained and retained to ensure compliance with Federal regulations.

Comments: The Health Department acknowledges that a policy is needed to address employee meeting costs. The gift card purchase that did not include a receipt is considered an isolated incident as the vendor did not provide receipts unless requested.

Corrective Action: As stated above, the Health Department has already created a 'Employee Health & Welfare & Entertainment Cost' policy for all Health Department staff to follow and has sent the policy to MDHHS for review. The State approved policy will be incorporated in the Employee Manual for future reference. The Accounting department will continue to monitor purchases through the Accounts Payable process to ensure receipts are retained.

Person Responsible for Implementation: The Health Officer, Directors and Accounting Department will work together to address issue.

Anticipated Completion Date: June 2019

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: **Non-Compliant Allocation of Cash Payments in Lieu of Health Insurance Benefits**

The Health Department did not properly allocate its biweekly cash payments in lieu of health insurance for employees working on multiple activities.

Recommendation: Implement policies and procedures to ensure that all cash payments in lieu of health insurance costs are allocated based on actual work performed.

Comments: The Health Department acknowledges that cash payments in-lieu of health insurance are not allocated based on actual work performed. This was due to the immateriality of the amount for the Health Department. However, due to the auditor comment, the allocation will be performed for FY2019 and forward.

Corrective Action: The Financial Services Manager will work with Human Resources to determine if cash payments in-lieu can be allocated based on actual work performed during the payroll process. If not, the cash payments in-lieu will be allocated at year end via a manual journal entry.

Person Responsible for Implementation: Finance Services Manager

Anticipated Completion Date: October 2019

Corrective Action Plan

Finding Number: 4

Page Reference: 6

Finding: **Internal Service Fund Working Capital Reserve Exceeded Allowable Limit**

Jackson County had one Internal Service Fund with a working capital reserve that exceeded the allowable limit established by 2 CFR 200.

Recommendation: Devise a plan to ensure the Internal Service Fund working capital reserve is reduced to the allowable limit (60 days cash expenses) by FYE 2020 by either cash refunds or adjustments to future billing rates/allocation.

Comments: None

Corrective Action: There are outstanding claims for 2019 that will reduce the capital reserve within the allowable limit. Going forward, on a quarterly basis, the Internal Service Fund will be monitored, and an analysis done to ensure that the capital reserve is within the allowable limit.

Person Responsible for Implementation: Cecilia Anderson, Finance Director

Anticipated Completion Date: December 31, 2019