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NICK LYON
DIRECTOR

October 22, 2018

Mr. Bryant Wilke, Health Officer
Sanilac County Health Department
171 Dawson Street, Suite 123
Sandusky, Michigan 48471

Dear Mr. Wilke:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Sanilac County Health Department WIC and Family Planning Programs 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; Conclusions, Findings, and Recommendations; Statements of Grant Program Revenues and Expenditures; Corrective Action Plans; and Comments and Recommendations. The Corrective Action Plans and Comments and Recommendations include the agency's response to the Preliminary Analysis.

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

Attachment

cc: Debra Hallenbeck, Director, Audit Division
Christina Herring, Director, WIC Division
Brittany LaRue, Manager, Financial Management and FMNP Unit
Paulette Dobynes Dunbar, Manager, Division of Maternal and Infant Health
Deanna Charest, Manager, Reproductive and Preconception Health Unit
Steve Utter, Financial Analyst, Division of Maternal and Infant Health
Kelly Voegeding, Financial Analysis, WIC Division
Shane Welch, Finance Administrator, Sanilac County Health Department

Audit Report

Sanilac County Health Department
WIC and Family Planning Programs

October 1, 2016 – September 30, 2017



Bureau of Audit
Audit Division
October 2018

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DESCRIPTION OF AGENCY

The Sanilac 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 Sanilac County, and the administrative office is located in Sandusky, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Sanilac County. The Health Department provides community health program services to the residents of Sanilac 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 WIC (Women, Infants, and Children) 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, 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 shares of cost 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, 2016 to September 30, 2017. 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 the WIC Program and \$5,000 for the 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 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 was generally effective 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. However, we identified the following exceptions: an unsupported payroll entry (Finding 1), and internal service fund working capital reserve exceeds allowable limit (Finding 2).

Finding

1. Unsupported Payroll Entry

The Health Department had an unsupported payroll entry during our sampled payroll month.

Title 2 CFR Part 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.”

During our review, we noted that an employee had two payroll entries in the WIC general ledger for one sampled pay period within the selected month of May. This employee had a timesheet supporting one entry and the other payroll entry of \$1,012 was unsupported by the Health Department. Adjustments are included on the Statement of Grant Program Revenues and Expenditures to remove the unsupported expenditure.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure only allowable costs that are adequately supported be allocated to Federal awards.

Finding

2. Internal Service Fund Working Capital Reserve Exceeds Allowable Limit

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

Sanilac 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, 2016 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. 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 Sanilac County's Internal Service Fund for the Year Ended December 31, 2016 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)
Buildings and Grounds	\$384,801	\$3,735	\$381,066	204.05

Reductions are needed to achieve compliance with Federal cost principles for the fund above with an excess working capital reserve.

Recommendation

We recommend that Sanilac 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 2019 by either cash refunds or adjustments to future billing rates/allocations.

MDHHS SHARES OF COST AND BALANCE DUE

Objective 2: To determine the MDHHS shares of cost 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 obligations under the WIC, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2017 are \$163,924, \$34,500, and \$113,140; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments to the WIC Program, but none affected the WIC Program grant funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$163,924	\$163,924 1		\$163,924
Local Funds - Other	\$400	\$2,089	(\$1,012) 2	\$1,077
TOTAL REVENUES	\$164,324	\$166,013	(\$1,012)	\$165,001
EXPENDITURES:				
Salary & Wages	\$64,332	\$69,831	(\$1,012) 2	\$68,819
Fringe Benefits	\$43,523	\$43,538		\$43,538
Supplies & Materials	\$4,217	\$3,054		\$3,054
Travel	\$950	\$3,452		\$3,452
Communication	\$748	\$673		\$673
Space Costs	\$9,916	\$9,679		\$9,679
Other	\$1,674	\$2,287		\$2,287
Indirect Costs	\$35,763	\$33,499		\$33,499
Other Costs Distributions	\$3,201	\$0		\$0
TOTAL EXPENDITURES	\$164,324	\$166,013	(\$1,012)	\$165,001

1 Actual MDHHS payments

2 Unsupported Payroll Entry (Finding 1)

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$34,500	\$34,500 ¹		\$34,500
Local Funds - Other	\$632	\$658		\$658
TOTAL REVENUES	\$35,132	\$35,158	\$0	\$35,158
EXPENDITURES:				
Salary & Wages	\$12,028	\$12,546		\$12,546
Fringe Benefits	\$8,505	\$8,426		\$8,426
Supplies & Materials	\$726	\$1,928		\$1,928
Travel	\$1,103	\$193		\$193
Communication	\$821	\$288		\$288
Space Costs	\$1,573	\$1,595		\$1,595
Other	\$3,568	\$3,608		\$3,608
Indirect Costs	\$6,808	\$6,574		\$6,574
TOTAL EXPENDITURES	\$35,132	\$35,158	\$0	\$35,158

¹ Actual MDHHS payments

**Sanilac County Health Department
Family Planning
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$113,140	\$113,140 ¹		\$113,140
Fees & Collections - 1st & 2nd Party	\$1,500	\$10,302		\$1,281
Fees & Collections - 3rd Party	\$45,372	\$17,000		\$26,021
Federal Cost Based Reimbursement	\$42,045	\$38,546		\$38,546
Local Non-ELPHS	\$0	\$4,598		\$4,598
Local Funds - Other	\$1,805	\$0		\$0
TOTAL REVENUES	\$203,862	\$183,586	\$0	\$183,586
EXPENDITURES:				
Salary & Wages	\$52,218	\$56,406		\$56,406
Fringe Benefits	\$23,312	\$22,996		\$22,996
Contractual	\$15,200	\$10,156		\$10,156
Supplies & Materials	\$49,172	\$40,671		\$40,671
Travel	\$610	\$1,077		\$1,077
Communication	\$196	\$245		\$245
Space Costs	\$5,137	\$5,212		\$5,212
Other	\$29,772	\$23,178		\$23,178
Indirect Costs	\$25,044	\$23,645		\$23,645
Other Costs Distributions	\$3,201	\$0		\$0
TOTAL EXPENDITURES	\$203,862	\$183,586	\$0	\$183,586

¹ Actual MDHHS payments

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Unsupported Payroll Entry

The Health Department had an unsupported payroll entry during our sampled payroll month.

Recommendation: Implement policies and procedures to ensure only allowable costs that are adequately supported be allocated to Federal awards.

Comments: After reviewing the payroll reports with the previous Finance director, we found that this was done in error. The payroll is distributed by a manual journal entry and the wrong employee number was typed in for the distribution.

Corrective Action: We will update our current Allocation Policy to include a step to verify that proper distribution codes are entered before the journal entry is finalized.

Person Responsible for Implementation: Shane Welch, Health Department Finance Administrator

Anticipated Completion Date: 10/01/2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

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

Sanilac County had one Internal Service Fund which had 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 2019 by either cash refunds or adjustments to future billing rates/allocations.

Comments: Sanilac County intends to utilize excess working capital reserve in future years on building repairs and maintenance.

Corrective Action: Monitor the fund balance to ensure that capital reserves in internal service funds are reduced and correctly calculated in the current and forthcoming fiscal years.

Person Responsible for Implementation: Tara Griffith, County Administrator/Controller

Anticipated Completion Date: 12/31/2019

MDHHS Response: None

Comments and Recommendations

1. Unsupported Cost Analysis for Family Planning Program Clinic Fees

The Health Department did not adequately support the numbers used in the cost analysis for the development of the Family Planning Program clinic fees.

The Michigan Title X Family Planning Program Standards & Guidelines Manual, Part II, Section C.8., Subsection 8.4.4 states, "Sub-recipients **must** document their process for determining how the schedule of fees is designed to recover the reasonable cost of providing services."

During our review, we noted that the Health Department could not support the numbers used in the cost analysis used to determine Family Planning Program clinic fees. We recommend the Health Department adequately document their process and support for numbers used in future cost analyses.

Management's Response: The Health Department will update the policy and procedure that is used to determine clinic fees to ensure that we have adequate supporting documentation for clinic fees.

2. Non-Compliant Wage and Fringe Benefit Distribution

The Health Department did not properly allocate one employee's wage and fringe benefit expenditures to the Family Planning Program.

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. 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 and wages among specific activities or cost objectives if the employee works on more than one Federal award..." Also, 2 CFR 200.431(b) for Fringe benefits specific to leave states, "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 one employee recorded working 14.75 hours in the Family Planning Program and 7.5 hours of paid time off on their time sheet. However, the Health Department did not properly charge the Family Planning Program for the recorded 14.75 hours or an equitable amount of the leave time taken by this employee. The audit was unable to confirm where the Family Planning Program's equitable amount of wages and fringe benefits was actually charged for this employee. We recommend that the Health Department implement policies and procedures to ensure

that all salary, wage, and fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

Management Response: In order to be ensure compliance of federal regulations the Health Department will implement a policy and procedure to ensure that all salaries, wages and benefits are distributed based on actual work performed.

3. Misclassification of Fees and Collections

The Health Department did not properly classify its source of fees and collections on its budget and final FSR for the Family Planning Program. The MDHHS Instructions for Preparation of Budget Forms define fees and collections in Section II, Part J. state, "...a. 1st Party funds projected to be received from private payers, including patients, source users and any member of the general population receiving services. b. 2nd Party funds projected to be received from organizations, private or public, who might reimburse services for a group or under a special plan. c. 3rd Party funds projected to be received from private insurances, Medicaid, Medicare or other applicable titles of the Social Security Act directly related to the cost of providing patient care or other services..." During our review, we noted that the Health Department misclassified \$9,021 of 3rd Party fees and collections as 1st Party fees and collections. There is no MDHHS Grant impact since the Health Department properly reported the total amount of fees and collections on the FSR. We recommend that the Health Department implement policies and procedures to ensure that fees and collections are properly classified.

Management Response: The Health Department will establish a policy and procedure to ensure that all future revenue is reported on the appropriate 1st, 2nd or 3rd Party line items.