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NICK LYON
DIRECTOR

June 28, 2018

Gerald A. Messana, MPA, Health Officer
Marquette County Health Department
184 US 41 East
Negaunee, Michigan 49866

Dear Mr. Messana:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Marquette 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, and Findings; 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,

A handwritten signature in black ink, reading "Shannah M. Havens".

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
Lynette Biery, Administrator, Bureau of Family Health Services
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Bill Matson, Finance Officer, Marquette County Health Department
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Audit Report

Marquette County Health Department
WIC and Family Planning Programs

October 1, 2015 – September 30, 2016



Bureau of Audit
Audit Division
June 2018

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DESCRIPTION OF AGENCY

The Marquette 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 Marquette County, and the administrative office is located in Negaunee, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Marquette County. The Health Department provides community health program services to the residents of Marquette 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, 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 93.994 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 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 costs 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 equipment purchases over \$2,500 for the WIC Program and \$5,000 for the Family Planning Program.
- 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 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 exception: non-compliant wage and fringe benefit distribution (Finding 1).

Finding

1. Non-Compliant Wage and Fringe Benefit Distribution

The Health Department did not properly allocate its WIC and Family Planning Program employees' wage and fringe benefit expenditures for employees working on multiple activities.

Title 2 CFR 200.430(i)(1) states, “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...(viii) Budget estimates alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that...(C) The non-Federal entity’s system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates.” It also states in 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 allocated employee wages and fringe benefits based on an estimated percentage that was calculated based on the Health Department’s most current budget. If an employee is absent, leave time hours are allocated based on the budgeted percentage, instead of properly allocating the leave time to all programs based on actual activity levels.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all wage and fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

MDHHS SHARES OF COSTS AND BALANCE DUE

Objective 2: To determine the MDHHS shares of costs 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 \$231,076, \$39,856, and \$56,337; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments.

**Marquette 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	\$231,076	\$231,076 ¹		\$231,076
Fees & Collections - 1st & 2nd Party	\$100	\$55		\$55
Fees & Collections - 3rd Party	\$2,400	\$2,242		\$2,242
Local Funds - Other	\$15,136	\$41,072		\$41,072
TOTAL REVENUES	\$248,712	\$274,445	\$0	\$274,445
EXPENDITURES:				
Salary & Wages	\$109,130	\$123,764		\$123,764
Fringe Benefits	\$37,104	\$43,373		\$43,373
Supplies & Materials	\$7,250	\$5,463		\$5,463
Travel	\$2,500	\$961		\$961
Communication	\$1,760	\$509		\$509
Other	\$975	\$568		\$568
Indirect Costs	\$89,993	\$99,807		\$99,807
TOTAL EXPENDITURES	\$248,712	\$274,445	\$0	\$274,445

¹ Actual MDHHS payments.

**Marquette 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	\$39,856	\$39,856 ¹		\$39,856
Local Funds - Other	\$12,276	\$8,323		\$8,323
TOTAL REVENUES	\$52,132	\$48,179	\$0	\$48,179
EXPENDITURES:				
Salary & Wages	\$30,160	\$25,536		\$25,536
Fringe Benefits	\$2,351	\$2,008		\$2,008
Supplies & Materials	\$1,100	\$1,078		\$1,078
Travel	\$2,500	\$1,723		\$1,723
Communication	\$720	\$750		\$750
Other	\$609	\$37		\$37
Indirect Costs	\$14,692	\$17,047		\$17,047
TOTAL EXPENDITURES	\$52,132	\$48,179	\$0	\$48,179

¹ Actual MDHHS payments.

**Marquette 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	\$56,337	\$56,337 ¹		\$56,337
Fees & Collections - 1st & 2nd Party	\$3,800	\$1,698		\$1,698
Fees & Collections - 3rd Party	\$25,600	\$29,073		\$29,073
Federal Cost Based Reimbursement	\$17,000	\$16,924		\$16,924
Local Funds - Other	\$56,663	\$40,057		\$40,057
TOTAL REVENUES	\$159,400	\$144,089	\$0	\$144,089
EXPENDITURES:				
Salary & Wages	\$63,707	\$56,856		\$56,856
Fringe Benefits	\$13,285	\$15,824		\$15,824
Supplies & Materials	\$17,100	\$14,640		\$14,640
Travel	\$450	\$613		\$613
Communication	\$100	\$45		\$45
Space Costs	\$0	\$0		\$0
Other	\$17,377	\$11,708		\$11,708
Indirect Costs	\$47,381	\$44,403		\$44,403
Other Costs Distributions	\$0	\$0		\$0
TOTAL EXPENDITURES	\$159,400	\$144,089	\$0	\$144,089

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

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

The Health Department did not properly allocate its WIC and Family Planning Program employees' wage and fringe benefit expenditures for employees working on multiple activities.

Recommendation: Implement policies and procedures to ensure that all wage and fringe benefit distributions are based on records that accurately reflect the work performed to ensure compliance with Federal regulation.

Comments: We have a system in place where our employees who work multiple activities must report their actual time on an electronic timesheet that populates our payroll system. Where we relied on budgeted spreads was when the employee used leave and other authorized time off.

Corrective Action: We implemented a system that uses the prior two quarters of actual time worked in activities to calculate the employee percentage spread used when employees are on leave and all other authorized time off for the following quarter.

Person Responsible for Implementation: Bill Matson, Finance Officer and Paula Paquette, Accountant

Anticipated Completion Date: Implemented for the quarter starting April 2018

MDHHS Response: None

Comments and Recommendations

1. Insufficient Supporting Documentation for Travel Expenditures

The Health Department did not obtain sufficient source documentation to support two travel reimbursement expenditures. Title 2 CFR 200.302 states, "... (b) 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." Also, 2 CFR 200.423 states that the costs of alcoholic beverages are unallowable. During our review of WIC Program's direct expenditures, we noted that one credit card reimbursement did not include sufficient meal receipts from restaurants that serve alcoholic beverages. The Health Department's Travel Policy requires the submission of receipts for all expense reimbursements but does not specifically require the submission of 'detailed' receipts from restaurants. Detailed receipts provide reasonable assurance that all reimbursed expenses are allowable. We recommend that the Health Department update its travel policies and procedures to ensure sufficient detailed documentation supports all travel reimbursements to ensure compliance with Federal regulation.

Management's Response:

We have printed in bold letters on our travel reimbursement voucher that "All meal receipts must be itemized" to remind our employees of the requirement. We also reiterated our travel policy at our last full staff meeting.

2. Fee Schedule Not Developed Based on Cost Analysis

The Health Department did not design its fee schedule based on the cost analysis completed for Family Planning Program Services. Also, the Health Department did not develop a board approved policy identifying the percentage of costs the fee schedule is designed to recover.

The Michigan Title X Family Planning Program Standards and 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." The manual also states, "While not recommended to do so, sub-recipients may elect to set their fee schedule below what would recover the actual cost of providing services, based on their specific community needs and circumstances. To elect this option, the sub-recipient **must** have a policy in place that identifies the percentage of costs the fee schedule is designed to recover and the policy **must** be approved by the sub-recipient's administrative board."

The Health Department completed a detailed cost analysis in 2016 and elected to set its fee schedule below the amount that would recover the reasonable costs of

providing services. However, the Health Department did not develop an administrative board approved policy identifying the percentage of costs the fee schedule was intended to recover.

We recommend that the Health Department design its fee schedule based on the cost analysis for Family Planning Program Services. We also recommend that the Health Department ensure that its fees are designed to recover the reasonable cost of providing services, or a percentage of costs as approved by the administrative board to ensure compliance with Michigan Title X guidelines.

Management Response:

We acknowledge the language from the Michigan Title X Family Planning Program Standards and Guidelines Manual, Part II Section C.8., Subsection 8.4.4. However, our current fee schedule is set at 10% above Traditional Blue Cross Blue Shield fees to optimize reimbursement from the most favorable payor. Consequently, we have adopted the attached policy and will notify the Board of Health annually as to the portion of the medical cost of services that was covered by our fees.