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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

Joel R. Strasz, Health Officer
Bay County Health Department
1200 Washington Avenue
Bay City, Michigan 48708

Dear Mr. Strasz:

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

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
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Audit Report

Bay County Health Department
WIC & Family Planning Programs

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 Bay 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 Bay County, and the administrative office is located in Bay City, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Bay County. The Health Department provides community health program services to the residents of Bay County.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs administered through the Michigan Department of Health and Human Services (MDHHS), which consist of federal and state funds. MDHHS provides 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 numbers 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 cost 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 through 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 building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- 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: Non-compliant salaries and fringes distribution (Finding 1), termination payment improperly record as a direct cost (Repeat) (Finding 2), inaccurate indirect cost calculation (Finding 3), and internal service fund working capital reserves exceed allowable amounts (Finding 4).

Finding

1. Non-Compliant Salaries and Fringes Distribution (Repeat)

The Health Department did not properly allocate Women, Infants and Children (WIC) and Family Planning Program employees' salaries, wages, and fringe benefit expenditures for employees working on multiple Federal program 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. Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that...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. All necessary adjustments must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated." It also states in Section 431(b) that, "...compensated fringe benefits such as annual leave, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits are allowable as long as costs are equitably allocated."

During our review, we noted that the Health Department allocated salaries and wages based on budget estimates and not actual time for two WIC Program employees and one Family Planning Program employee. We also noted, several WIC Program employees worked on multiple Federal programs such as Medicaid Outreach and Immunization based on the employee's activity reports. However, the Health Department charged 100% of their leave time to the WIC Program instead of allocating the cost to all benefitting programs. The Health Department's current salary and fringe benefit, and leave time allocation methodology does not include a process to review after-the-fact employee activity and record applicable adjustments as needed.

This was also cited in our FYE 2013 audit report. The Corrective Action in that audit report stated, "The Health Department will adopt procedures to ensure that salaries, wages and leave time are equitably allocated to all programs based on personnel activity reports." The Health Department's anticipated completion date was January 1, 2015. The Health Department, however, never adopted procedures to ensure an equitable allocation of salaries, wages and leave time.

Recommendation

We again recommend that the Health Department implement policies and procedures to ensure that all salary and fringe benefit distributions are based on records that accurately reflect the work performed as required by Federal regulations.

Finding

2. Termination Payment Improperly Record as a Direct Cost (Repeat)

The Health Department improperly recorded its termination expenditures as a direct cost.

Title 2 CFR 200.431(b)(3)(i) states the following for fringe benefit compensation, “When a non-Federal entity uses the cash basis of accounting, the cost of leave is recognized in the period that the leave is taken and paid. Payments for unused leave when an employee retires or terminates employment are allowable as indirect costs in the year of payment.”

During our review, we noted that the Health Department direct expensed \$1,711 to the WIC program for an employee’s termination vacation payment instead of properly allocating this expense as an indirect cost. We also noted that this is a repeat finding from the 2013 Audit Report in which the Health Department’s corrective action plan was to develop and implement new policies and procedures to ensure any termination payouts are handled in accordance with Federal regulations by January 1, 2015. However, the Health Department did not implement new policies or procedures to ensure termination payouts are properly allocated.

Adjustments reflecting the change in salaries and wages for the WIC Program are shown on the attached Statement of Grant Program Revenues and Expenditures.

Recommendation

We again recommend that the Health Department implement policies and procedures to ensure that all termination payouts are in compliance with Federal regulation.

Finding

3. Inaccurate Indirect Cost Calculation

The Health Department did not accurately calculate its indirect cost allocations.

Title 2 CFR 200.402 Composition of costs states, “The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits.” Also in Title 2 CFR 200.406 (a) it states the following for applicable credits: “Applicable credits refer to those receipts or reductions-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs...To the extent that such credits accruing to or received by the non-Federal entity relate to allowable costs, they must be credited to the Federal award either as a cost reduction or cash refund, as appropriate.”

During our review, we noted that the Health Department did not properly deduct \$11,250 of rental revenue from its cost pool, prior to allocating its indirect costs. As a result, the Health Department overstated its indirect costs for the WIC Program by \$2,400 and Family Planning Program by \$499. Adjustments are shown on the attached Statement of Grant program Revenues and Expenditures.

Due to the level of local funding for the WIC and Family Planning Programs, there is no impact on MDHHS funding. However, the correction of the indirect cost allocation will impact MDHHS’s obligation for the Children’s Special Health Care Services for \$550. (See Exhibit 1).

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all indirect costs are accurately calculated to ensure compliance with Federal regulation.

Finding

4. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

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

Bay 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 two internal service funds.

Title 2 CFR Part 200, Appendix V, Sections 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 Bay County's Internal Service Funds for the Year Ended December 31, 2015 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)
Self-Insurance	\$1,048,869	\$125,286	\$923,583	14.7
Healthcare Self Insurance	\$4,918,129	\$1,090,352	\$3,827,777	7.0

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

Recommendation

We recommend that Bay 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 2018 by either cash refunds or adjustments to future billing rates/allocations.

MDHHS SHARES OF COST AND BALANCE DUE

Objective 1: To determine the MDHHS shares of cost 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 \$477,271, \$15,450, and \$79,886; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments but none affected the WIC Program or Family Planning Program grant funding.

Bay 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	\$477,271	\$477,271 1		\$477,271
Local Funds - Other	\$239,656	\$143,102	(\$4,111) 2, 3	\$138,991
TOTAL REVENUES	\$716,927	\$620,373	(\$4,111)	\$616,262
EXPENDITURES:				
Salary & Wages	\$280,544	\$267,560	(\$1,711) 2	\$265,849
Fringe Benefits	\$153,708	\$115,981		\$115,981
Supplies & Materials	\$13,568	\$8,828		\$8,828
Travel	\$3,750	\$2,436		\$2,436
Communication	\$2,200	\$2,667		\$2,667
Other	\$23,501	\$11,325		\$11,325
Indirect Costs	\$239,656	\$211,576	(\$2,400) 3	\$209,176
TOTAL EXPENDITURES	\$716,927	\$620,373	(\$4,111)	\$616,262

1 Actual MDHHS payments.

2 Termination Vacation Pay Unallowable as Direct Cost (Repeat) (Finding 3)

3 Indirect Cost Allocation Inaccuracies (Finding 4)

**Bay 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	\$15,450	\$15,450 ¹		\$15,450
TOTAL REVENUES	\$15,450	\$15,450	\$0	\$15,450
EXPENDITURES:				
Salary & Wages	\$10,000	\$10,613		\$10,613
Fringe Benefits	\$5,450	\$4,837		\$4,837
TOTAL EXPENDITURES	\$15,450	\$15,450	\$0	\$15,450

¹ Actual MDHHS payments.

**Bay 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	\$79,886	\$79,886 ¹		\$79,886
Fees & Collections - 1st & 2nd Party	\$29,160	\$4,209		\$4,209
Fees & Collections - 3rd Party	\$54,363	\$34,785		\$34,785
Federal Cost Based Reimbursement	\$6,952	\$15,294	\$18,396 ²	\$33,690
Local Funds - Other	\$46,096	\$42,605	(\$18,895) ^{2, 3}	\$23,710
TOTAL REVENUES	\$216,457	\$176,779	(\$499)	\$176,280
EXPENDITURES:				
Salary & Wages	\$58,713	\$56,704		\$56,704
Fringe Benefits	\$19,630	\$22,929		\$22,929
Contractual	\$13,000	\$3,233		\$3,233
Supplies & Materials	\$53,900	\$23,797		\$23,797
Travel	\$3,773	\$1,352		\$1,352
Communication	\$1,140	\$622		\$622
Other	\$20,000	\$24,213		\$24,213
Indirect Costs	\$46,301	\$43,929	(\$499) ³	\$43,430
TOTAL EXPENDITURES	\$216,457	\$176,779	(\$499)	\$176,280

¹ Actual MDHHS payments.

² MCBR Cash Basis Adjustment (Finding 1)

³ Indirect Cost Allocation Inaccuracies (Finding 4)

Bay County Health Department
Schedule of Recalculated Indirect Costs
F.Y. 10/1/2015 - 9/30/2016

Program Title	Salary & Wages Per FSR	Fringe Benefits Per FSR	Total Salaries and Fringes	Distribution Base	Program Allocation Rate	Recalculated Total Amount to be Allocated	Recalculated Indirect Costs	Indirect Cost Per FSR	Variance	Local Funds Used Per FSR	MDHHS Grant Impact
			A	B	C A/B	D	E C x D	F	G E - F	H	G + H
Childrens Special HLTH	60,552	27,312	87,864	1,797,674	4.8876%	980,417	47,919	48,469	(550)	0	(550)
Total MDHHS Grant Impact											(550)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Non-Compliant Salaries and Fringes Distribution (Repeat)**

The Health Department did not properly allocate Women, Infants and Children (WIC) and Family Planning Program employees' salaries, wages, and fringe benefit expenditures for employees working on multiple Federal program activities.

Recommendation: Implement policies and procedures to ensure that all salary and fringe benefit distributions are based on records that accurately reflect the work performed as required by Federal regulations.

Comments: N/A

Corrective Action: The Bay County Health Department will implement a policy/procedure that calculates salary and fringe benefit distributions at the time of submission to the County payroll department. Cost distributions will be reviewed on a periodic basis to ensure correct allocations.

Person Responsible for Implementation: Joel Strasz, Health Officer
Mark Pickell, Business Services Manager

Anticipated Completion Date: June 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Termination Payment Improperly Record as a Direct Cost (Repeat)

The Health Department expensed \$1,711 of “Termination Vacation Pay” to the WIC Program as a direct cost instead of allocating it as an indirect cost.

Recommendation: Implement policies and procedures to ensure that all termination payouts are in compliance with Federal regulation.

Comments: N/A

Corrective Action: The Bay County Health Department will implement a policy/procedure that ensures correct distribution of termination payouts in compliance with Federal regulations at the time of termination. Cost distributions will be reviewed on a periodic basis to ensure correct allocation.

Person Responsible for Implementation: Joel Strasz, Health Officer
Mark Pickell, Business Services Manager

Anticipated Completion Date: June 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Inaccurate Indirect Cost Calculation

The Health Department did not accurately calculate its indirect cost allocations

Recommendation: Implement policies and procedures to ensure that all indirect costs are accurately calculated to ensure compliance with Federal regulation.

Comments: N/A

Corrective Action: The Bay County Health Department will implement a policy/procedure to ensure that all indirect costs are accurately calculated to ensure compliance with Federal regulations.

Person Responsible for Implementation: Joel Strasz, Health Officer
Mark Pickell, Business Services Manager

Anticipated Completion Date: June 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Bay County had two Internal Service Funds which had working capital reserves that exceeded the allowable amount established by 2 CFR Part 200 as of December 31, 2015.

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 2018 by either cash refunds or adjustments to future billing rates/allocations. Also, ensure that the working capital reserves analysis is accurately calculated in future years.

Comments: Internal Service Funds working capital reserves were reduced in 2017.

Corrective Action: Further measures will be taken to ensure that capital reserves used in internal service funds are reduced and correctly calculated in the current and forthcoming fiscal years.

Person Responsible for Implementation: Jan Histed, Finance Officer

Anticipated Completion Date: December 31, 2018

MDHHS Response: None

Comments and Recommendations

1. Total Actual Program Expenditures Not Reported on FSR

Bay County Health Department did not report all program expenditures its final FYE 2016 FSR.

The MDHHS Grant Agreement, Part I, 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 under reported \$1,558 in WIC Breastfeeding expenditures. The Health Department only reported expenditures up to the MDHHS Grant agreement amount. We also noted that the Health Department did not report any WIC Breastfeeding indirect costs to the WIC Breastfeeding program.

The Health Department under-reported \$1,558 on the WIC Breastfeeding Final FSR. The Health Department also did not report any indirect costs to the WIC Breastfeeding FSR. We recommend that the Health Department comply with the MDHHS Agreement Contract and report total actual program expenditures, regardless of the source of funds on the FSRs and report additional funding used on the FSR Local funds line item.

Management Response:

The Health Department was unable to report any expenditures that exceeded the budgeted amount in MDHHS's electronic grant administration and management system (EGrAMS). The Health Department will work with both EGrAMS and WIC Program staff to ensure that all program expenditures and funding sources are both budgeted and reported.

2. Unsupported Cost Analysis in Setting a Reasonable Fee Schedule

The Health Department did not retain documentation to supports its cost analysis to develop its fee schedule for Family Planning Program Services.

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." Additionally, "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 program cost analysis to develop its schedule of fees. However, during our review, we noted that the Health Department did not provide sufficient documentation to support the program costs used in the analysis. We recommend that the Health Department complete its cost analysis using the MDHHS Cost Analysis Tool and retain this costs analysis support to ensure compliance with the Michigan Title X guidelines.

Management Response:

The Bay County Health Department has adopted the MDHHS cost analysis tool and will retain this documentation to support its costs used to develop its Family Planning Program Services fee schedule, this will be implemented by September 30, 2018.

3. Medicaid Cost Based Reimbursements Not Reported Properly on FSR

The Health Department did not properly report all its Medicaid Cost Based Reimbursement (MCBR) settlements on a cash basis on its Financial Status Report (FSR).

MDHHS's FSR form preparation instructions state, "The Financial Status Report is to be prepared reporting expenditures on a cash or accrued basis and revenue on an accrued basis, with the exception of fees which should be reported on a cash basis as received." "This would include fees for services, payments by third parties (insurance, patient collections, Medicaid, etc.) and any other collections."

During our review, we noted that the Health Department received a Medicaid reimbursement for \$18,396 in October 2015, however, the Health Department did not record or report it as source of funds in fiscal year (FY) 2016 on its final 2016 FSR. The October 2015 cost reimbursement settlement letter incorrectly stated the reimbursement was fourth quarter instead of first quarter. Based on the letter, the Health Department recorded and reported the \$18,396 reimbursement in FY15 instead of the correct FY16. Adjustments reflecting the change in revenues for the Family Planning Program are shown on the attached Statement of Grant Program Revenues and Expenditures. In addition, the FSR instructions changed in 2017 and as a result, we recommend that the Health Department report all MCBR payments in accordance with MDHHS's FSR form preparation instructions.

Management Response:

The Bay County Health Department's fiscal year ends on December 31st, the reimbursement was received in October 2015 and was properly recorded as revenue in FY 2015, however, the Health Department reported the revenue based on the

modified accrual basis on the fourth quarter FSR ending on September 30, 2015 instead of reporting it on a cash basis on the first quarter FSR ending December 2015. For fiscal year 2017 the FSR instructions changed to allow the grantee to report on a cash or accrued basis. The Health Department will follow MDHHS's instruction for its FSR reporting.