



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT
LEWIS CASS BUILDING
P.O. BOX 30815 • LANSING, MICHIGAN 48909

NICK LYON
DIRECTOR

October 26, 2018

Amy Pavey, Finance Director
Luce-Mackinac-Alger-Schoolcraft District Health Department
14150 Hamilton Lake Road
Newberry, Michigan 49868

Dear Ms. Pavey:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Luce-Mackinac-Alger-Schoolcraft District Health Department Women, Infants, and Children (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 Plan 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
Kelly Voegeding, Financial Analysis, WIC Division
Paulette Dobynnes 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
Bryce Wooton, Auditor, Population Health and Community Services Program

Audit Report

Luce-Mackinac-Alger-Schoolcraft
District 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 Luce-Mackinac-Alger-Schoolcraft District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Luce County, which is the reporting entity, and the administrative office is located in Newberry, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is appointed by the Board of Commissioners of Luce, Mackinac, Alger and Schoolcraft Counties.

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 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 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 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 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 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 non-compliant fringe benefit distributions (Finding 1).

Finding

1. Non-Compliant Fringe Benefit Distributions

The Health Department did not properly allocate its employees' fringe benefit expenditures for employees working on multiple activities.

Title 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 the Health Department charged employee leave time based on the employees' work schedules. If an employee is absent, leave time hours are allocated to programs based on the work schedule for the absent time period, instead of properly allocating the leave time to all programs that the employee actually worked.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all 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 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, 2017 are \$156,186, \$42,254, and \$40,861, respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs.

**LMAS District Health Department
WIC Resident Services
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$156,186	\$156,186 ¹		\$156,186
Local Funds - Other	\$87,189	\$61,033		\$61,033
TOTAL REVENUES	\$243,375	\$217,219	\$0	\$217,219
EXPENDITURES:				
Salary & Wages	\$113,784	\$104,410		\$104,410
Fringe Benefits	\$41,562	\$35,462		\$35,462
Supplies & Materials	\$2,800	\$1,837		\$1,837
Travel	\$7,475	\$4,630		\$4,630
Communication	\$2,052	\$1,741		\$1,741
Other	\$15,350	\$13,203		\$13,203
Indirect Costs	\$60,352	\$55,936		\$55,936
TOTAL EXPENDITURES	\$243,375	\$217,219	\$0	\$217,219

¹ Actual MDHHS payments.

**LMAS District 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	\$42,254	\$42,254 ¹		\$42,254
Local Funds - Other	\$7,651	\$27,078		\$27,078
TOTAL REVENUES	\$49,905	\$69,332	\$0	\$69,332
EXPENDITURES:				
Salary & Wages	\$29,101	\$35,222		\$35,222
Fringe Benefits	\$10,630	\$11,745		\$11,745
Supplies & Materials	\$200	\$156		\$156
Travel	\$852	\$2,004		\$2,004
Communication	\$676	\$1,423		\$1,423
Other	\$500	\$0		\$0
Indirect Costs	\$7,946	\$18,782		\$18,782
TOTAL EXPENDITURES	\$49,905	\$69,332	\$0	\$69,332

¹ Actual MDHHS payments.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$40,861	\$40,861 ¹		\$40,861
Fees & Collections - 1st & 2nd Party	\$26,000	\$22,139		\$22,139
Fees & Collections - 3rd Party	\$6,000	\$1,395		\$1,395
Federal Cost Based Reimbursement	\$38,685	\$161,000		\$161,000
Local Funds - Other	\$103,001	\$849		\$849
TOTAL REVENUES	\$214,547	\$226,244	\$0	\$226,244
EXPENDITURES:				
Salary & Wages	\$104,275	\$124,754		\$124,754
Fringe Benefits	\$38,089	\$41,727		\$41,727
Supplies & Materials	\$31,925	\$10,518		\$10,518
Travel	\$1,750	\$2,707		\$2,707
Communication	\$1,687	\$1,278		\$1,278
Other	\$6,665	\$3,834		\$3,834
Indirect Costs	\$55,308	\$66,578		\$66,578
Other Costs Distributions	(\$25,152)	(\$25,152)		(\$25,152)
TOTAL EXPENDITURES	\$214,547	\$226,244	\$0	\$226,244

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: **Non-Compliant Fringe Benefit Distributions**

The Health Department did not properly allocate its employees' fringe benefit expenditures for employees working on multiple activities.

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

Comments: The Health Department agrees to comply with the above stated finding.

Corrective Action: To ensure employees' leave time is distributed among programs actually worked by the employee, the Health Department's Finance Director and Human Resources Director will work with the software vendor to change the way leave time is recorded and subsequently spread among programs. The software will automatically create a distribution table for each employee each pay period based on the employees' time actually worked, and PTO time will be spread according to this distribution table.

Person Responsible for Implementation: Amy Pavey and Ann Ison

Anticipated Completion Date: 11/30/2018

Comments and Recommendations

1. 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 reconciliation of the Family Planning Program accounting records to the FSR, we noted that the Health Department misclassified \$20,809 of 3rd Party fees and collections as 1st and 2nd 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's Response: To ensure proper categorization of the revenues in the future, finance staff have reviewed the MDHHS Instructions for Preparation of Budget Forms. Additionally, the Health Department has added a copy of these instructions to the Health Department's instruction manual.

**Person Responsible
for Implementation:** Amy Pavey

**Anticipated
Completion Date:** Completed on 10/17/2018

2. Lack of Written Procurement Procedures

The Health Department did not have documented procurement procedures in compliance with the regulations identified in Title 2 CFR 200.318 through 200.326. We recommend that the Health Department establish sufficient documented procurement procedures to ensure compliance with Federal regulation.

Management's Response: The Finance Director worked with other administrative staff within the Health Department to update written procurement procedures in compliance with the regulations identified in Title 2 CFR 200.318 through 200.326. The Finance Director will bring this updated policy to the Board of Health for approval on 11/5/2018.

**Person Responsible
for Implementation:** Amy Pavey

**Anticipated
Completion Date:** 11/5/2018

3. Insufficient Supporting Documentation for Travel Expenditures

The Health Department did not obtain sufficient source documentation to support five 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." During our review of the WIC, WIC Breastfeeding, and Family Planning Program's direct expenditures, we noted that five personal vehicle mileage reimbursements were not supported by documented mileage logs. 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 nor does it require the submission of mileage logs for personal vehicle reimbursements. Detailed receipts and mileage logs provide reasonable assurance that all reimbursed expenses are allowable and reasonable. 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: The Finance Director and Human Resources Director worked together to prepare a tool that staff may use to track mileage in their personal vehicle as well as other travel expenses for which the employee would request reimbursement. Staff will be required to record the following information (if applicable): Date, Beginning Odometer Reading, Ending Odometer Reading, Miles Traveled, Program for which travel/expense were incurred, Purpose of Travel. Staff will then use this log to enter personal travel/expenses on their electronic time sheets. Additionally, staff will continue to be required to submit receipts for requested reimbursements other than mileage.

**Person Responsible
for Implementation:** Ann Ison

**Anticipated
Completion Date:** 10/28/2018