



RICK SNYDER
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 20, 2018

Jim Rutherford, Health Officer
Kalamazoo County Health Department
3299 Gull Road
Kalamazoo, Michigan 49048

Dear Mr. Rutherford:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Kalamazoo County Health Department WIC Program 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; and Corrective Action Plan. The Corrective Action Plan 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
Brittany LaRue, Manager, Financial Management and FMNP Unit
Matthew Tompkins, Auditor, Population Health and Community Services Section
Kathy Richter, Finance Specialist, Kalamazoo County Health Department
Denise Ulrich, Deputy Director, Kalamazoo County Health Department

Audit Report

Kalamazoo County Health and
Community Services Department

WIC Program

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 Kalamazoo County Health and Community Services Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Kalamazoo County, and the administrative office is located in Nazareth, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Kalamazoo County. The Health Department provides community health program services to the residents of Kalamazoo 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.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program financial reporting, and to determine the MDHHS share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in reporting its WIC 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 share of cost for the WIC Program 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 concerns.
- Reviewed the completed Subrecipient Questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance and adherence to policy and approval procedure.
- 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 in reporting their WIC 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 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: Internal Service Fund Working Capital Reserves Exceed Allowable Limit (Finding 1) (Repeat).

Finding

1. Internal Service Fund Working Capital Reserves Exceed Allowable Limit (Repeat)

Kalamazoo County had one Internal Service Fund which had working capital reserves that exceeded the allowable limit established by 2 CFR 200.

Kalamazoo County charges most Departments (including the Health and Community Services 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 of its 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 Kalamazoo 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)
Technology	\$270,960	\$100,945	\$170,015	3.4

Reductions are needed to achieve compliance with Federal cost principles for the fund above with the excess working capital reserve. This was also noted in our FYE 2013 audit for the Employee Benefits and Technology Funds.

Recommendation

We again recommend that Kalamazoo County devise a plan to ensure the Internal Service Fund working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2019 by either cash refunds or adjustments to future billing rates/allocation.

MDHHS SHARE OF COST AND BALANCE DUE

Objective 2: To determine the MDHHS share of cost for the WIC Program 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 Program for fiscal year ended September 30, 2016 is \$476,442. The attached Statement of MDHHS Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments.

Kalamazoo County Health and Community Services Department
WIC
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$476,442	\$476,442 ¹		\$476,442
Fees & Collections - 3rd Party	\$100	\$0		\$0
Local Funds - Other	\$140,806	\$126,899		\$126,899
TOTAL REVENUES	\$617,348	\$603,341	\$0	\$603,341
EXPENDITURES:				
Salary & Wages	\$251,300	\$242,423		\$242,423
Fringe Benefits	\$88,700	\$86,928		\$86,928
Supplies & Materials	\$9,600	\$9,955		\$9,955
Travel	\$5,800	\$4,354		\$4,354
Communication	\$9,200	\$8,404		\$8,404
County-City Central Services	\$198,406	\$198,406		\$198,406
Space Costs	\$49,200	\$46,065		\$46,065
Other	\$5,142	\$3,806		\$3,806
Indirect Costs	\$0	\$0		\$0
TOTAL EXPENDITURES	\$617,348	\$600,341	\$0	\$600,341

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

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Finding: Internal Service Fund Working Capital Reserves Exceed Allowable Limit (Repeat)

Kalamazoo County had one Internal Service Fund which had working capital reserves that exceeded the allowable limit established by 2 CFR 200.

Recommendation: Devise a plan to ensure the Internal Service Fund working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2019 by either cash refunds or adjustments to future billing rates/allocations.

Comments: The County of Kalamazoo agrees that our Technology Internal Service Fund had working capital reserves that exceeded the allowable amounts established by 2 CFR 200. Since the previous finding, we have had continual progress on reducing the excess working capital through refunds and adjustments to billing rates/allocations. The level of 22 months of excess in 2013 has been reduced down to 3.4 months in 2016.

Corrective Action: The County will ensure the Internal Service working capital reserves will be reduced to the allowable limit by FYE 2019. This will be accomplished through the continuation of the adjustments implemented to achieve the reductions discussed above. Results of 2017 unaudited operations show that the excess will be down to 2.3 months and forecast projections are that compliance with the 60 days of excess cash expenses will be achieved by fiscal year end 2018.

**Person Responsible
For Implementation:** Tim Meeker, Finance Director

**Anticipated
Completion Date:** 12/31/2018

MDHHS Response: None