



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
BUREAU OF AUDIT
P.O. Box 30815; LANSING, MICHIGAN 48909

NICK LYON
DIRECTOR

June 29, 2018

Joneigh S. Khaldun, MD, MPH, FACEP, Director & Health Officer
City of Detroit Health Department
3245 E. Jefferson, Suite 100
Detroit, MI 48207

Dear Dr. Khaldun:

Enclosed is our final report from the Michigan Department of Health and Human Services (MDHHS) audit of the City of Detroit Local Maternal and Child Health 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; Adjustment Schedule; Corrective Action Plans; and Comments and Recommendations. The Conclusions, Findings, and Recommendations are organized by audit objective. The Corrective Action Plans and Comments and Recommendations include the agency's paraphrased 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.

Sincerely,

A handwritten signature in blue ink that reads "Debra S. Hallenbeck".

Debra S. Hallenbeck, Director
Audit Division

Attachment

cc: Timothy Lawther, MPH, MA, Deputy Director, City of Detroit Health Department
Joseph Mutebi, MBA, Supervisory Accountant III, City of Detroit Health Department
Pam Myers, Director, Bureau of Audit, MDHHS
Carrie Tarry, MPH, Director, Division of Child & Adolescent Health, MDHHS
Orlando Todd, MBA, Director, Office of Local Health Services, MDHHS
Bryce Wooton, Auditor, Population Health and Community Services Section, MDHHS

Audit Report

City of Detroit Health Department
Local Maternal and Child Health Programs

October 1, 2016 – September 30, 2017



Bureau of Audit

Audit Division

June 2018

TABLE OF CONTENTS

| | Page |
|--|------|
| Description of Agency | 1 |
| Funding Methodology..... | 1 |
| Purpose and Objectives | 1 |
| Scope and Methodology..... | 2 |
| <u>Conclusions, Findings, and Recommendations</u> | |
| <u>Financial Management System</u> | 2 |
| 1. Inaccurate FSR Reporting of Contractual Costs..... | 3 |
| 2. Payroll Distributions Inappropriately Based on Budget Allocations..... | 5 |
| 3. Inaccurate and Incomplete Check Request and Requisition and Approval Forms..... | 6 |
| 4. Late FSR Filings..... | 7 |
| <u>Compliance Monitoring</u> | 8 |
| 5. Insufficient Monitoring..... | 8 |
| 6. Lack of Timely Corrective Action | 9 |
| <u>Indirect Cost Reporting</u> | 10 |
| 7. Non-Compliant Indirect Cost Allocations. | 10 |
| <u>Procurement Standards</u> | 14 |
| 8. Lack of Cost Analysis for SEMHA Contract..... | 14 |
| Adjustment Schedule | 15 |
| Corrective Action Plans | 17 |
| Comments and Recommendations | 27 |

DESCRIPTION OF AGENCY

The City of Detroit Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is accounted for in the Health Activity of the City of Detroit's General Fund. The Health Department operates under the legal supervision and control of the Mayor and City Council, with divided powers and duties as provided by law and the city charter. The Health Department provides public health services to the residents of Detroit. The Health Department's mission is to work in partnership with Detroiters to protect and promote their health, well-being, safety and resilience; and to respond to every public health need with exceptional leadership, policies, programs and services.

The Health Department contracted with the Southeastern Michigan Health Association (SEMHA) to provide fiduciary services that consist of fiscal management services and personnel administration for the majority of the Health Department's public health programs. SEMHA prepares payrolls and vouchers for reimbursement and provides monthly Financial Status Reports (FSRs) to the Health Department based on spending and allocations that are approved by the Health Department. The Health Department then reports the monthly FSR amounts from SEMHA (that include a 5% administrative fee) as contractual costs to the Michigan Department of Health and Human Services (MDHHS).

FUNDING METHODOLOGY

The Health Department's Local Maternal and Child Health (LMCH) Programs are funded from grant programs from MDHHS. MDHHS provided the Health Department with monthly grant funding based on Financial Status Reports in accordance with the terms and conditions of the grant agreement and budgets. The LMCH Programs were funded by Federal funding under Federal catalog number 93.994.

PURPOSE AND OBJECTIVES

The purpose of this review was to assess the Health Department's compliance with various fiscal requirements related to the LMCH Programs. The following were the specific objectives of the review:

1. To assess the effectiveness of the Health Department's financial management system in accordance with applicable requirements.
2. To assess the Health Department's effectiveness in complying with monitoring requirements with respect to timely and accurate fiscal reporting.
3. To assess the Health Department's accuracy in reporting indirect costs in accordance with Federal cost principles.
4. To assess the Health Department's effectiveness in complying with applicable procurement standards related to the Professional Services Contract with the Southeastern Michigan Health Association.

SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the fiscal period October 1, 2016 to September 30, 2017. Our audit procedures included the following:

- Reviewed the Grant Agreement, Budget, and Program Assurances.
- Reviewed the most recently completed Subrecipient Questionnaire.
- Reviewed the most recent City of Detroit Single Audit Report for any issues relevant to this review.
- Discussed and reviewed monitoring work completed by the MDHHS Division of Child & Adolescent Health staff.
- Evaluated the financial reporting process and tested a sample of transactions for compliance with the established process.
- Reviewed various policies to ensure they meet applicable requirements.
- Evaluated the accuracy and timeliness of Financial Status Report (FSR) submissions.
- Evaluated the payroll allocation process.
- Evaluated compliance monitoring processes and timeliness of corrective action.
- Reviewed the indirect cost allocation methodology for compliance with requirements and supporting documentation.
- Evaluated the fiduciary and grants administration services procurement action for compliance with applicable requirements.

Our review did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

FINANCIAL MANAGEMENT SYSTEM

Objective 1: To assess the effectiveness of the Health Department's financial management system in accordance with applicable requirements.

Conclusion: The Health Department's financial management system was not effective in providing accurate, current, and complete disclosure of the financial results of the Federal award. We identified the following exceptions: inaccurate FSR reporting of contractual costs in every quarterly FSR filed (Finding 1), payroll distributions inappropriately based on budget allocations (Finding 2), inaccurate and incomplete Check Request and Requisition and Approval Forms (Finding 3), and late FSR filings in 94% of the filings (Finding 4).

Finding

1. Inaccurate FSR Reporting of Contractual Costs

The Health Department misreported contractual costs on every quarterly FSR filed with MDHHS for all four of the LMCH Programs for fiscal year end 2017.

The Health Department's contract with MDHHS requires the submission of quarterly FSRs that report total actual program expenditures in accordance with MDHHS's FSR Instructions and requires compliance with Title 2 CFR 200. Title 2 CFR 200.402 defines the total cost of Federal awards as the sum of allowable direct and allocable indirect costs less any applicable credits. The FSR Instructions require the reporting of expenditures based on the grantee's reporting basis, which has been specified by the Health Department as accrual basis. Additionally, Title 2 CFR 200.302 requires the Health Department to have a financial management system that is sufficient to permit the preparation of reports required by the terms and conditions of the Federal award; and the financial management system must provide for accurate, current, and complete disclosure of the financial results of the Federal award.

We reviewed the quarterly costs reported to MDHHS as "Contractual" for the four LMCH Programs. The "Contractual" costs consisted of Salaries & Wages, Fringe Benefits, Travel, Supplies & Materials, Contractual, Other, and the 5% Negotiated Rate reported monthly by SEMHA related to the four LMCH Programs. We found that the quarterly costs reported to MDHHS as "Contractual" generally agreed with the monthly FSRs provided by SEMHA. However, we found the following misreporting related to the SEMHA FSRs which resulted in misreporting of "Contractual" costs to MDHHS:

Salaries & Wages and Fringe Benefits

Of the 48 FSRs (1 monthly per 4 programs), 47 (98%) contained errors with only one FSR correct with respect to Salaries & Wages reporting. Of the 27 staff members' salaries reported to LMCH programs, 23 (85%) were improperly reported for various months throughout the year. The misreporting continued for periods of time ranging from 3 consecutive months up to 9 consecutive months for each of these 23 staff members. Misreporting consisted primarily of staff members reported to the wrong LMCH program, administration staff reported to LMCH programs, and non-LMCH staff (lead intervention and WIC staff) reported to LMCH programs. Additionally, a year-end accrual was not reported by SEMHA until 42 days after the final FSR due date of October 10, 2017.

In our sample test, we found that SEMHA's payroll reporting agreed with the payroll records provided by the Health Department to SEMHA. The misreporting appears to have been caused by misinformation provided by the Health Department to SEMHA. Furthermore, controls did not exist at the Health Department to detect the misreporting. Instead, the misreporting was detected by MDHHS's monitoring during the contract year. Subsequently, the Health Department performed some reconciliations to identify needed adjustments and adjusted the FSR reporting.

However, we identified multiple errors in the reconciliation and further needed adjustments. The Health Department made further adjustments and a year-end accrual. However, our further review again identified errors. To correct the errors, the following adjustments would be needed:

| Adjustments Needed | 0291 | 0292 | 0293 | 0294 |
|-----------------------------|-------------|-------------|-------------|-------------|
| Salaries & Wages | (3,000) | (9,254) | 3,462 | 3,288 |

We found no exceptions with Fringe Benefits reporting. Actual costs incurred are reported and allocated based on staff allocations. However, due to the further Salaries & Wages errors noted above, the following Fringe Benefits adjustments would be needed to correct the Fringe Benefit reporting (which simply represent 40% of the Salaries & Wages adjustments):

| Adjustments Needed | 0291 | 0292 | 0293 | 0294 |
|---------------------------|-------------|-------------|-------------|-------------|
| Fringe Benefits | (1,200) | (3,702) | 1,385 | 1,315 |

Travel, Supplies & Materials, Contractual, Other

Of the 44 FSRs (4 months not reported for one program), 32 (73%) had errors with respect to reported expenses other than salaries, fringes and fees. The following types of errors were noted:

- Items charged to an LMCH cost center, but should not be an LMCH cost center.
- Items charged to the wrong LMCH cost center.
- Unallowed items, such as refreshments, gift cards, photography and tents charged.
- Accruals not included on 9/30/2017 FSRs. Adjustments trickled in from 42-119 days AFTER the 10-day FSR due date. Adjustments were significant as they represented 8% to 23% of direct expenditures of each award.

In our testing, we found that SEMHA's expense reporting agreed with the approved instructions (Check Request Form) provided by the Health Department to SEMHA. Accordingly, the misreporting appears to have been caused by misinformation provided by the Health Department to SEMHA. Furthermore, controls did not exist at the Health Department to detect the misreporting. Instead, the misreporting was detected by MDHHS's monitoring during the contract year. Some FSR corrections identified by MDHHS's Program Office were made throughout the year, but many remained as of the final FSR report. The following table summarizes the additional adjustments that would be needed to correct the misreporting:

| Adjustments Needed | 0291 | 0292 | 0293 | 0294 |
|---------------------------|-------------|-------------|-------------|-------------|
| Travel | 411 | (1,089) | (411) | 215 |
| Supplies | | | (500) | |
| Contractual | | 2,837 | (4,501) | |
| Other | (835) | | (812) | |

5% Negotiated Rate

Of the 48 FSRs (1 monthly per 4 programs), only 1 (2%) contained an error with respect to the 5% Negotiated Rate reporting, whereby a lower rate was charged resulting in a \$123 undercharge. However, due to the above noted misreporting, the following adjustments related to the 5% Negotiated Rate would also be needed to ensure the correct 5% Negotiated Rate is reported:

| Adjustments Needed | 0291 | 0292 | 0293 | 0294 |
|---------------------------|-------------|-------------|-------------|-------------|
| Negotiated Rate 5% | (231) | (560) | 54 | 241 |

All noted adjustments from above are summarized on the Adjustments Schedule located on Pages 15 and 16.

Recommendation

We recommend that the Health Department implement procedures and controls to ensure that accurate information, including only allowed costs that are designated to the appropriate cost centers, is provided to SEMHA to ensure accurate FSR reporting. We also recommend that the Health Department implement procedures and controls to ensure year-end accrual information is provided to SEMHA in a timely manner that allows for timely and accurate FSR reporting, and liquidations of payables within 75 days after the agreement fiscal year-end as required by the MDHHS contract.

Finding

2. Payroll Distributions Inappropriately Based on Budget Allocations

The Health Department does not require employees to document actual time worked on a program or multiple programs, and distributes employees' salaries and wages to programs based on budget allocations with no adjustments to actual work performed.

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...(viii) 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: (A) The system for establishing the estimates produces reasonable approximations of the activity actually performed; (B) Significant changes in the corresponding work activity are identified and entered into the records in a timely manner...; and (C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal award based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable and properly allocated."

During our audit, we noted that the Health Department determines budgeted program FTE percentages for each employee working on multiple programs. These percentages are then used by SEMHA throughout the fiscal year to allocate salaries and wages for each employee. Compensation can be allocated to benefitting programs using a predetermined budgeted percentage for interim purposes, but 2 CFR 200 requires an adjustment to actual. During our review of employee time records, we noted that time sheets do not reflect the actual work performed by the employee when working on multiple programs. Rather, time sheets state the total hours worked during that pay period and are simply allocated to benefitting programs based on the predetermined budgeted percentage. Since time records do not show actual activity of employees, the Health Department is unable to properly conduct an analysis of actual activity to determine if any adjustments are necessary.

Recommendation

We recommend that the Health Department implement sufficient procedures and controls to ensure salaries and wages are properly allocated to benefitting programs based on actual activity to ensure compliance with Federal regulations.

Finding

3. Inaccurate and Incomplete Check Request and Requisition and Approval Forms

The Health Department did not completely and accurately complete the SEMHA Check Request Forms and Requisition and Approval Form for Expenditures.

Title 2 CFR 200.303 requires the Health Department to establish and maintain effective internal control over the Federal award that provides reasonable assurance that the Health Department is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. The Health Department's internal control over financial reporting includes the Check Requests Policies and Procedures; and established forms (SEMHA Check Request Form and Requisition and Approval Form for Expenditures) that document cost centers, budget lines, explanations, allowability and approvals.

We selected 22 expenditures for which the SEMHA Check Request Form and Requisition and Approval Form for Expenditures were used, and tested the forms for proper completion and approval. While all of these were approved by the Program Manager, Finance Manager, and Deputy Director, multiple exceptions were noted as follows:

- 17 (77%) were charged to the wrong cost center (the wrong cost center was completed on the Check Request Form 14 times; and the correct cost center was completed on the Check Request Form 3 times, but was changed to the incorrect cost center 2 times by the Operations Administrator, and charged to the incorrect cost center by SEMHA 1 time).

- 8 (36%) Check Request Forms did not include a complete explanation, including “how the expense will benefit the grant/program” as required by Section 2.1.1 of the Check Requests Policies and Procedures.
- 13 (59%) were not allowed costs under the award (brunch, refreshments, safe sleep education that was part of another award – the Infant Safe Sleep award).
- 20 (91%) did not have the Operations Administrator’s initials on the Check Request Form as required by Section 4.2.2 of the Check Requests Policies and Procedures.
- 22 (100%) did not have the Operations Administrator’s initials on the Requisition and Approval Form for Expenditures as required by Section 4.2.2 of the Check Requests Policies and Procedures.
- Of the 2 items that were split among multiple cost centers, 2 (100%) did not have “documentation demonstrating the methodology for calculating the division of the cost with the amount per cost center” as required by Section 1.4.4 of the Check Requests Policies and Procedures.

As a result of the above exceptions, costs were charged to the wrong programs, unallowed costs were charged to programs, required approvals were not documented, and allocations were not documented. The Health Department’s internal control system was not effective in providing reasonable assurance that the Health Department is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award.

Recommendation

We recommend that the Health Department implement sufficient procedures and controls to ensure that SEMHA Check Request Forms and Requisition and Approval Form for Expenditures are accurate and complete, including only allowed costs that are designated to the appropriate cost centers, to help ensure accurate FSR reporting.

Finding

4. Late FSR Filings

The Health Department did not ensure timely filing of accurate FSRs.

The Health Department’s contract with MDHHS requires the submission of quarterly FSRs within 30 days after the close of the fiscal quarters and a final FSR within 75 days of year end that report total actual program expenditures in accordance with MDHHS’s FSR Instructions. The contract also requires compliance with Title 2 CFR 200. Title 2 CFR 200.302 (b) requires that the financial management system of the Health Department provides for accurate, current, and complete disclosure of the financial results of each program.

During our audit, we noted that only one of the quarterly FSRs for the four programs was submitted on time (this program had zero expenditures at that time). Of the 16 FSRs (quarterly and final), 15 (94%) were submitted late, and the lateness ranged from 32 to 128 days late. Monthly FSR filings from SEMHA were delinquent 20% of the time, by exceeding the 10-day timeframe by 2 to 16 days in 9 of the 44 FSRs filed. However, quarter-end reporting by SEMHA was generally timely with only 1 FSR past the 10-day due date by 16 days. Accordingly, SEMHA FSRs were generally provided in sufficient time to meet MDHHS filing deadlines. Multiple corrections and year-end adjustments appeared to be the primary reasons for the significant lateness.

Recommendation

We recommend that the Health Department implement sufficient procedures and controls to ensure accurate and timely FSR filings in accordance with contract provisions.

COMPLIANCE MONITORING

Objective 2: To assess the Health Department's effectiveness in complying with monitoring requirements with respect to timely and accurate fiscal reporting.

Conclusion: The Health Department was not effective in complying with monitoring requirements related to timely and accurate fiscal reporting. We found exceptions relating to insufficient monitoring (Finding 5), and lack of timely corrective action (Finding 6).

Finding

5. Insufficient Monitoring

The Health Department did not adequately monitor their compliance with the terms and conditions of the Federal award related to timely and accurate fiscal reporting.

Title 2 CFR 200.303 requires the Health Department to:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity [Health Department] is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)...

- (c) Evaluate and monitor the non-Federal entity's [Health Department] compliance with statutes, regulations and the terms and conditions of Federal awards.

During our audit, we noted that the Health Department had established various control activities to help meet financial reporting requirements. The control activities include various actions established through policies and procedures that were designed to help ensure accurate financial reporting. However, monitoring activities, which is one of the five required components of an effective internal control system according to COSO's Internal Control Integrated Framework, are not present. We inquired about the Health Department's monitoring and were referred to the various control activities that are used to help meet financial reporting requirements. Nothing was provided to evidence ongoing evaluations, separate evaluations, or some combination of the two to ascertain whether the control activities are present and functioning. Given the findings identified in this review, it is evident that ongoing and/or separate evaluations are needed to ascertain whether the components of internal control are present and functioning.

Recommendation

We recommend that the Health Department implement required monitoring activities over fiscal reporting that include evaluations to ascertain whether the components of internal control are present and functioning, and communications of deficiencies in a timely manner to those parties responsible for taking corrective action.

Finding

6. Lack of Timely Corrective Action

The Health Department did not take prompt corrective action when instances of noncompliance related to fiscal reporting were identified and communicated by MDHHS.

Title 2 CFR 200.303(d) requires the Health Department to take prompt action when instances of noncompliance are identified.

MDHHS identified numerous instances of fiscal misreporting throughout the contract year and communicated the misreporting to the Health Department. The Health Department made some corrections throughout the year. However, many misreported expenditure items remained as of the final 9/30/2017 FSRs as noted in Finding 1 above. A total of 34 outstanding corrections were identified as of the February 2018 final FSR filings.

The 34 outstanding corrections had all been previously communicated to the Health Department as follows, but remained outstanding as of the February 2018 FSR filings:

| Month Communicated | Number of Items to be Corrected |
|--------------------|---------------------------------|
| February 2017 | 2 |
| May 2017 | 13 |
| August 2017 | 1 |
| October 2017 | 15 |
| December 2017 | 3 |

Health Department personnel provided us with a Financial Status Report Review, Amendment and Submission Form; and Routing Form that they implemented subsequent to our review period. These document FSR approvals, required adjustments, adjustment approvals, and adjusted FSR approvals. These should help ensure required FSR adjustments are completed.

Recommendation

We recommend that the Health Department implement sufficient procedures and controls to ensure that prompt corrective action is taken when instances of non-compliance are identified.

INDIRECT COST REPORTING

Objective 3: To assess the Health Department's accuracy in reporting indirect costs in accordance with Federal cost principles.

Conclusion: The Health Department did not accurately report indirect costs in accordance with Federal cost principles. We noted non-compliant indirect cost allocations (Finding 7).

Finding

7. Non-Compliant Indirect Cost Allocations

The Health Department did not properly allocate indirect costs in accordance with Federal regulations.

The MDHHS Grant Agreement, Part II, Section IV. K. Indirect Costs and Cost Allocations/Distribution Plans states, "...4. There must be a documented, well-defined rationale and audit trail for any cost distribution or allocation based upon Title 2 CFR, Part 200 Cost Principles and subject to Department review."

Title 2 CFR 200.331(a)(4) provides options for recovering indirect cost which include either an approved federally recognized indirect cost rate, a rate negotiated between the pass-through entity and the subrecipient (in compliance with 2 CFR 200), or a de minimis indirect cost rate. Specific documentation, negotiation, and approval requirements related to indirect cost rates are identified in Appendix VII, Section F. 3. of 2 CFR 200. In lieu of an approved rate, the Health Department has the option to use a cost allocation plan that distributes indirect costs to specific funding sources according to Appendix VII, Section F. 3. of 2 CFR 200.

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."

Title 2 CFR 200.405 Allocable costs states:

- (a) A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received...
- (b) All activities which benefit from the non-Federal entity's indirect cost...will receive an appropriate allocation of indirect costs.
- (c) Any cost allocable to a particular Federal award under the principles provided for in this Part may not be charged to other Federal awards to overcome fund deficiencies, to avoid restrictions imposed by Federal statutes, regulations, or terms and conditions of the Federal awards, or for other reasons.

Title 2 CFR 200.406 Applicable credits states, "(a) Applicable credits refer to those receipts or reduction-of-expenditure-type transactions that offset or reduce expense items allocable to the Federal award as direct or indirect (F&A) costs..."

Appendix VII to Part 200, C. 2. Simplified Method states:

- a. Where a non-Federal entity's major functions benefit from its indirect costs to approximately the same degree, the allocation of indirect costs may be accomplished by (1) classifying the non-Federal entity's total costs for the base period as either direct or indirect, and (2) dividing the total allowable indirect costs (net of applicable credits) by an equitable distribution base...
- b. Both the direct costs and the indirect costs must exclude capital expenditures and unallowable costs...
- c. The distribution base may be (1) total direct costs (excluding capital expenditures and other distorting items, such as pass-through funds, subcontracts in excess of \$25,000, participant support costs, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

During our audit, we identified the following three categories (cost pools) of indirect cost for which the Health Department receives benefit from:

A.) The Citywide Central Services Costs

These costs are for services provided on a centralized basis for the city's operating agencies for things such as financial operations, human resources, auditing, general services, contracting and procurement, legal, and executive costs.

B.) Detroit Health Department (DHD) Administrative Shared Costs

These costs are DHD administrative costs related to staff hired through SEMHA and invoices paid by SEMHA for things such as administrative assistance, budget development and management, contract development and monitoring, data design, facilities, human resources, logistics, quality improvement, strategic leadership communication, community relations, and social media.

C.) DHD Administrative In-House Costs

These costs are DHD administrative costs related to personnel working at DHD, such as the Health Officer, deputies, division managers, program managers, and their associated expenditures.

During our review of reported indirect costs, we noted various exceptions related to the above categories of indirect cost as noted below:

Citywide Central Services Costs

- 1.) The Health Department used a predetermined rate of 3% of total direct program expenditures and the allocable share of the DHD Administrative Shared Costs to report costs related to the Citywide Central Services Costs. However, there was no indirect cost rate proposal, negotiation, nor formal agreement related to this indirect cost rate as required by Appendix VII, Section F. 3. of 2 CFR 200.
- 2.) The Health Department used an incorrect amount from the June 30, 2015 Citywide Central Services Cost Allocation Plan for budgeting purposes, using an amount of \$2,019,200 from one line below the Health Department line that contained an amount of \$651,311. While the rate was capped at 3%, using the correct amount of \$651,311 would have resulted in a lower rate of 2.62%.
- 3.) The Health Department did not allocate Citywide Central Services Costs to all benefitting programs.

Detroit Health Department (DHD) Administrative Shared Costs

- 1.) The Health Department used budgeted program costs instead of actual program costs for the distribution base.
- 2.) The Health Department used budgeted program costs for the distribution base that were not adequately supported; amounts did not reconcile to any approved MDHHS or SEMHA budget.
- 3.) The Health Department did not include all benefitting programs in the distribution base, resulting in a disproportionate share of indirect costs to all other benefitting programs.
- 4.) The Health Department did not report the total equitable amount of DHD Administrative Shared Costs on all benefitting program FSRs. If a program's budget was limited, the equitable DHD Administrative Shared Costs were only reported up to the budgeted amount or to the amount remaining in grant funds.
- 5.) The Health Department did not consistently apply the calculated distribution percentages. The Health Department adjusted formulas within the spreadsheet to shift distributions (dollar amounts) among programs with no documented rationale or methodology to support the adjusted distributions.

DHD Administrative In-House Costs

- 1.) The Health Department did not allocate DHD Administrative In-House Costs to any benefitting program throughout the fiscal year under review. During our audit, we determined the un-allocated DHD administrative in-house costs equaled \$3,866,875.

The Health Department did not have sufficient controls in place to ensure that all indirect costs were equitably allocated to all benefitting programs, and in compliance with 2 CFR 200. However, we determined that the Health Department under-reported total indirect costs related to the Health Department for the fiscal year under review. Adjustments are not being proposed since additional grant funds are not available at this time.

Recommendation

We recommend that the Health Department implement sufficient controls and procedures to ensure that all indirect costs are allocated and reported based on actual and allowable expenditures, and in accordance with relative benefits received to ensure compliance with Federal regulations.

PROCUREMENT STANDARDS

Objective 4: To assess the City of Detroit's effectiveness in complying with applicable procurement standards related to the Professional Services Contract with the Southeastern Michigan Health Association.

Conclusion: The City of Detroit generally complied with applicable procurement standards. However, we identified one exception regarding a lack of cost analysis for the SEMHA contract (Finding 8).

Finding

8. Lack of Cost Analysis for SEMHA Contract

The City of Detroit's Office of Contracting and Procurement (OCP) did not perform a cost or price analysis prior to executing its Health Department's contract with SEMHA.

Title 2 CFR 200.323 Contract cost and price states, "(a) The non-Federal entity must perform a cost or price analysis in connection with every procurement action in excess of the Simplified Acquisition Threshold including contract modifications. The method and degree of analysis is dependent on the facts surrounding the particular procurement situation, but as a starting point, the non-Federal entity must make independent estimates before receiving bids or proposals." Also, Title 2 CFR 200.318(i) requires the non-Federal entity to maintain records sufficient to detail the history of procurement, and the records must include the basis for the contract price.

During our audit, we noted that the OCP never performed a cost or price analysis in connection with the fiduciary and grants administration services procurement action. We also noted the OCP's Request for Proposal (RFP) required a cost proposal to be attached to the agency's bid proposal, which included a schedule of fees or hourly rates broken out for each type of staff member that will work on the project. This schedule of fees was never provided and instead, SEMHA bid a firm cost proposal of a 5% fee for all programs listed on the RFP and a 2.75% fee for the Ryan White program. By accepting the flat 5% and 2.75% fees with no cost analysis, the OCP was not in compliance with its own RFP or Federal regulations.

Recommendation

We recommend that the OCP implement sufficient controls and procedures to conduct a cost analysis prior to executing or renewing any contracts and maintain records that include the basis for contract prices to ensure compliance with Federal regulations.

City of Detroit
Local Maternal and Child Health Programs
Adjustment Schedule
October 1, 2016 - September 30, 2017

| 291 - ENABLING SERVICES WOMEN | REPORTED | ADJUSTMENTS | CORRECT TOTAL | Budget | Under / (Over) Budget |
|--|------------------|--------------------|--------------------------|------------------|--------------------------------------|
| Salaries & Wages | \$308,724 | (\$3,000) | \$305,724 | | |
| Fringe Benefits | 100,962 | (1,200) | 99,762 | | |
| Travel | 7,635 | 411 | 8,046 | | |
| Supplies & Materials | 3,227 | 0 | 3,227 | | |
| Contractual | 106,946 | 0 | 106,946 | | |
| Other | 15,853 | (835) | 15,018 | | |
| Total Direct | 543,347 | (4,624) | 538,723 | | |
| Negotiated 5% Rate | 27,167 | (231) | 26,936 | | |
| Contractual | 570,514 | (4,855) | 565,659 | 634,226 | 68,567 |
| Indirect Costs | 19,958 | | 19,958 | 22,865 | 2,907 |
| Other Costs Distributions | 94,738 | | 94,738 | 105,067 | 10,329 |
| Total Expenditures | <u>\$685,210</u> | <u>(\$4,855)</u> | <u>\$680,355</u> | <u>\$762,158</u> | <u>\$81,803</u> |

| 292 - ENABLING SERVICES CHILDREN | REPORTED | ADJUSTMENTS | CORRECT TOTAL | Budget | Under / (Over) Budget |
|---|------------------|--------------------|--------------------------|------------------|--------------------------------------|
| Salaries & Wages | \$131,720 | (\$9,254) | \$122,466 | | |
| Fringe Benefits | 50,611 | (3,702) | 46,909 | | |
| Travel | 3,533 | (1,089) | 2,444 | | |
| Supplies & Materials | 437 | 0 | 437 | | |
| Contractual | 41,844 | 2,837 | 44,681 | | |
| Other | 9,632 | | 9,632 | | |
| Total Direct | 237,777 | (11,208) | 226,569 | | |
| Negotiated 5% Rate | 11,889 | (560) | 11,328 | | |
| Contractual | 249,666 | (11,768) | 237,897 | 327,950 | 90,053 |
| Indirect Costs | 9,022 | | 9,022 | 11,894 | 2,872 |
| Other Costs Distributions | 51,053 | | 51,053 | 56,620 | 5,567 |
| Total Expenditures | <u>\$309,741</u> | <u>(\$11,768)</u> | <u>\$297,972</u> | <u>\$396,464</u> | <u>\$98,492</u> |

City of Detroit
Local Maternal and Child Health Programs
Adjustment Schedule
October 1, 2016 - September 30, 2017

| 293 - PH FUNCTIONS / INFRASTRUCTURE | REPORTED | ADJUSTMENTS | CORRECT TOTAL | Budget | Under / (Over) Budget |
|--|------------------|--------------------|--------------------------|------------------|--------------------------------------|
| Salaries & Wages | \$87,638 | \$3,462 | \$91,100 | | |
| Fringe Benefits | 49,253 | 1,385 | 50,638 | | |
| Travel | 7,646 | (411) | 7,235 | | |
| Supplies & Materials | 11,318 | (500) | 10,818 | | |
| Contractual | 79,468 | (4,501) | 74,967 | | |
| Other | 110,755 | (812) | 109,943 | | |
| Total Direct | 346,078 | (1,377) | 344,701 | | |
| Negotiated 5% Rate | 17,181 | 54 | 17,235 | | |
| Contractual | 363,259 | (1,323) | 361,936 | 432,482 | 70,546 |
| Indirect Costs | 11,855 | | 11,855 | 14,471 | 2,616 |
| Other Costs Distributions | 31,917 | | 31,917 | 35,397 | 3,480 |
| Total Expenditures | <u>\$407,031</u> | <u>(\$1,323)</u> | <u>\$405,708</u> | <u>\$482,350</u> | <u>\$76,642</u> |

| 294 - DIRECT SERVICES CHILDREN | REPORTED | ADJUSTMENTS | CORRECT TOTAL | Budget | Under / (Over) Budget |
|---|------------------|--------------------|--------------------------|------------------|--------------------------------------|
| Salaries & Wages | \$72,296 | \$3,288 | \$75,584 | | |
| Fringe Benefits | 35,132 | 1,315 | 36,447 | | |
| Travel | 2,245 | 215 | 2,460 | | |
| Supplies & Materials | 2,857 | 0 | 2,857 | | |
| Contractual | 5,000 | 0 | 5,000 | | |
| Other | 0 | 0 | 0 | | |
| Total Direct | 117,530 | 4,818 | 122,348 | | |
| Negotiated 5% Rate | 5,877 | 241 | 6,117 | | |
| Contractual | 123,407 | 5,059 | 128,465 | 131,958 | 3,493 |
| Indirect Costs | 4,415 | | 4,415 | 4,896 | 481 |
| Other Costs Distributions | 23,758 | | 23,758 | 26,349 | 2,591 |
| Total Expenditures | <u>\$151,580</u> | <u>\$5,059</u> | <u>\$156,638</u> | <u>\$163,203</u> | <u>\$6,565</u> |

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Inaccurate FSR Reporting of Contractual Costs**

The Health Department misreported contractual costs on every quarterly FSR filed with MDHHS for all four of the LMCH Programs for fiscal year end 2017.

Recommendation: Implement procedures and controls to ensure that accurate information, including only allowed costs that are designated to the appropriate cost centers, is provided to SEMHA to ensure accurate FSR reporting. Also, implement procedures and controls to ensure year-end accrual information is provided to SEMHA in a timely manner that allows for timely and accurate FSR reporting, and liquidations of payables within 75 days after the agreement fiscal year-end as required by the MDHHS contract.

Comments: The City of Detroit Health Department (DHD) agrees with the finding and recommendation.

Corrective Action: A process has been implemented where the DHD Senior Leadership team meets with the program administrator and manager to review line items on the monthly FSR to ensure that they accurately reflect costs and are designated to the appropriate cost centers as provided by SEMHA. DHD has implemented procedures and controls to ensure year-end accrual information is provided to SEMHA in a timely manner that allows for timely and accurate FSR reporting. Accruals are processed no later than 30 days after the year end closing, and

payables are liquidated within 75 days after the agreement fiscal year-end as required by the MDHHS contract.

**Person Responsible
for Implementation:** Finance Manager

**Anticipated
Completion Date:** November 7, 2017

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 5

Finding: **Payroll Distributions Inappropriately Based on Budget Allocations**

The Health Department does not require employees to document actual time worked on a program or multiple programs, and distributes employees' salaries and wages to programs based on budget allocations with no adjustments to actual work performed.

Recommendation: Implement sufficient procedures and controls to ensure salaries and wages are properly allocated to benefitting programs based on actual activity to ensure compliance with Federal regulations.

Comments: DHD agrees with the finding and recommendation.

Corrective Action: DHD will implement Personnel Activity Report (PAR) forms that capture and allocate employees' actual time worked on each program on a daily basis which is verified by the program manager. DHD is working through the staff training to ensure accurate understanding and implementation.

Person Responsible for Implementation: LMCH Program Director

Anticipated Completion Date: August 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 6

Finding: Inaccurate and Incomplete Check Request and Requisition and Approval Forms

The Health Department did not completely and accurately complete the SEMHA Check Request Forms and Requisition and Approval Form for Expenditures.

Recommendation: Implement sufficient procedures and controls to ensure that SEMHA Check Request Forms and Requisition and Approval Form for Expenditures are accurate and complete, including only allowed costs that are designated to the appropriate cost centers, to help ensure accurate FSR reporting.

Comments: DHD agrees with the finding and recommendation.

Corrective Action: DHD implemented checks and balances by adding additional reviewers to ensure expenses are charged to the appropriate cost centers and line items. All check requests not submitted accurately are returned to the LMCH Program Director for corrections. Additionally, the Check Requests Policy and Procedures has been revised and will be distributed to staff.

Person Responsible for Implementation: Finance Manager and LMCH Program Director

Anticipated Completion Date: October 1, 2017

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 7

Finding: Late FSR Filings

The Health Department did not ensure timely filing of accurate FSRs.

Recommendation: Implement sufficient procedures and controls to ensure accurate and timely FSR filings in accordance with contract provisions.

Comments: DHD agrees with the finding and recommendation.

Corrective Action: DHD and Office of Departmental Financial Services (ODFS) has implemented procedures to accurately and timely submit FSRs by minimizing the level of errors on all FSR submissions.

**Person Responsible
for Implementation:** Finance Manager

**Anticipated
Completion Date:** October 1, 2017

MDHHS Response: None

Corrective Action Plan

Finding Number: 5

Page Reference: 8

Finding: Insufficient Monitoring

The Health Department did not adequately monitor their compliance with the terms and conditions of the Federal award related to timely and accurate fiscal reporting.

Recommendation: Implement required monitoring activities over fiscal reporting that include evaluations to ascertain whether the components of internal control are present and functioning, and communications of deficiencies in a timely manner to those parties responsible for taking corrective action.

Comments: DHD agrees with the finding and recommendation.

Corrective Action: A member of the DHD Senior Leadership team, the finance team and Program Director meet monthly to review each line item on the monthly FSRs. Additionally, the LMCH Program Director and a member of the finance team meet monthly with the State program managers to review and approve all FSRs. Beginning in FYE 2019, DHD will conduct periodic internal audits to assess the effectiveness of established internal controls.

Person Responsible for Implementation: Finance Manager

Anticipated Completion Date: October 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 6

Page Reference: 9

Finding: **Lack of Timely Corrective Action**

The Health Department did not take prompt corrective action when instances of noncompliance related to fiscal reporting were identified and communicated by MDHHS.

Recommendation: Implement sufficient procedures and controls to ensure that prompt corrective action is taken when instances of non-compliance are identified.

Comments: DHD agrees with the finding and recommendation.

Corrective Action: A member of the DHD Senior Leadership team, the finance team and Program Director meet monthly to review each line item on the monthly FSRs. Any corrective actions needed are completed within the FSR period and the changes are sent to SEMHA to generate a revised FSR for submission.

**Person Responsible
for Implementation:** Finance Manager

**Anticipated
Completion Date:** November 1, 2017

MDHHS Response: None

Corrective Action Plan

Finding Number: 7

Page Reference: 10

Finding: Non-Compliant Indirect Cost Allocations

The Health Department did not properly allocate indirect costs in accordance with Federal regulations.

Recommendation: Implement sufficient controls and procedures to ensure that all indirect costs are allocated based on actual and allowable expenditures, and in accordance with relative benefits received to ensure compliance with Federal regulations.

Comments: DHD agrees with the finding and recommendation.

Corrective Action: DHD will implement procedures to ensure indirect costs are allocated in accordance with 2 CFR 200 which will ensure that all indirect costs are allocated based on actual allowable expenditures, and will reconcile any discrepancies at the end of the program year relative to benefits received.

**Person Responsible
for Implementation:** Finance Manager

**Anticipated
Completion Date:** October 1, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 8

Page Reference: 14

Finding: **Lack of Cost Analysis for SEMHA Contract**

The City of Detroit's Office of Contracting and Procurement (OCP) did not perform a cost or price analysis prior to executing its Health Department's contract with SEMHA.

Recommendation: Implement sufficient controls and procedures to conduct a cost analysis prior to executing or renewing any contracts, and maintain records that include the basis for contract prices to ensure compliance with Federal regulations

Comments: The City of Detroit's Office of Contracting and Procurement agrees with the finding that a cost or price analysis was not completed and maintained in the procurement records as required by 2 CFR 200.323.

Corrective Action: The OCP will ensure that, when applicable, a cost or price analysis is completed and supporting evidence/documentation is maintained with the procurement records. The OCP will update the Department's Standard Operating Procedures to ensure cost or price analysis language, when applicable, is up-to-date and in compliance with grant requirements. OCP will ensure that cost or price analysis requirements are disseminated amongst staff on an annual basis (i.e. training sessions, OCP monthly communications, etc.).

Person Responsible for Implementation: Supervisory Auditor IV, Office of Contracting and Procurement

**Anticipated
Completion Date:** October 1, 2018

MDHHS Response: None

Comments and Recommendations

1. SEMHA Check Request Form Does Not Correspond With Budget and FSR Lines

The Health Department uses the SEMHA Check Request Form (Form) to approve payments by the Southeast Michigan Health Association (SEMHA) and instruct SEMHA on which budget line item the expenditure is to be reported, but the budget lines available to check do not correspond with lines on the budgets or FSRs. The Form includes a "Conference" line, but there is no such line on the budgets or FSRs; and the Form does not include a "Travel" line, but there is such a line on the budgets and FSRs. When available line items do not correspond with budget and FSR line items, this poses a risk of reporting expenditures on incorrect lines. We recommend that the Health Department work with SEMHA to amend the Check Request Form used for each program to ensure the "Budget Line Item to Be Charged" includes all lines included on the budgets and FSRs and no additional lines to help ensure proper FSR reporting.

Management Response: Beginning October 1, 2017, and going forward, program managers are required to complete a work plan and forecast for the next year based on prior year's actuals. Each program's budget and expense lines must match the State approved work plan for that fiscal year and each program's allocation must match the provided allocation. Every check request must include the line item to which the expense will be charged. This process is currently in place and monitored during the monthly budget meetings.

2. Check Requests Policy Only Requires Original Receipts When Reasonable

The Check Requests Policy and Procedures, Section 1.4.1, states, "All expenses seeking payment/reimbursement are required to have original invoices or receipts when reasonable." Title 2 CFR 200.403(g) requires that costs be adequately documented to be allowable under Federal awards. All expenses should be supported by invoices or receipts, and all should be original. There should be no circumstance in which a supporting invoice or receipt is not obtained and retained. Additionally, the original invoice or receipt should always be used as support for payment, unless compensating controls to prevent duplicate payments are instituted and documented in the Policy. We recommend that the Health Department amend the Check Requests Policy to ensure all expenses are supported by original invoices or receipts, or the implementation of adequate compensating controls in the absence of original invoices or receipts.

Management Response: DHD revised the Check Requests Policy and Procedures, Section 1.4.1, to state, "All expenses seeking payment/reimbursement must have original invoices or receipts." The revised policy has been distributed to all staff.

3. Insufficient Controls Over Financial Management System

The Health Department did not have sufficient controls over its financial management system to ensure all administrative expenditures were accurately recorded in the financial records.

Title 2 CFR 200.62 states, “Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal Awards:

- (a) Transactions are properly recorded and accounted for, in order to:
 - (1) Permit the preparation of reliable financial statements and Federal reports;
 - (2) Maintain accountability over assets; and
 - (3) Demonstrate compliance with Federal statutes, regulations and terms and conditions of the Federal award.”

During our review of a sample of indirect expenditures, we noted multiple expenditures that were recorded to improper general ledger accounts such as Verizon wireless bills recorded as advertising expenses, and laptop purchases recorded as building acquisitions. Additionally, an improper entry to vehicle acquisitions was later reversed, but improperly reversed from buildings acquisitions. We recommend that the Health Department implement sufficient controls over its financial management system to ensure compliance with Federal regulations.

Management Response: DHD implemented controls in FYE 2018 to assure that all allowable and budgeted items are charged and recorded properly to budget lines. This includes requiring and verifying appropriate indirect/administrative expenses and ensuring that only budgeted indirect/administrative expenditures are charged. DHD Senior Leadership and the Finance team meet to review those indirect/administrative charges monthly and make adjustments prior to the issuance of any final FSRs.