



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

GRETCHEN WHITMER  
GOVERNOR

ROBERT GORDON  
DIRECTOR

August 20, 2019

Ms. Leigh-Anne Stafford, MSA, Health Officer  
Oakland County Health Division  
1200 N. Telegraph Road  
Pontiac, Michigan 48341

Dear Ms. Stafford:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Oakland County Health Department Women, Infants, and Children (WIC) Program 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; and Corrective Action Plans. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on the MDHHS website at:  
[http://www.michigan.gov/mdhhs/0,5885,7-339-73970\\_43164-151236--,00.html](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  
Public Health and Community Services Programs Section  
Audit Division

Attachment

cc: Debra Hallenbeck, Director, Audit Division  
Christina Herring, Director, WIC Division  
Kelly Voegeding, Financial Analyst, Financial Management and FMNP Unit  
Matthew Tompkins, Auditor, Public Health and Community Services Programs Section  
Rachel Shymkiw, Administrator, Oakland County Health Department  
Lisa McKay-Chiasson, Administrator, Oakland County Health Department

# Audit Report

Oakland County Health Department

Women, Infants, and Children Program

October 1, 2016 – September 30, 2017



Bureau of Audit

Audit Division

August 2019

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## **DESCRIPTION OF AGENCY**

The Oakland 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 Oakland County, and the administrative office is located in Pontiac, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Oakland County. The Health Department provides community health program services to the residents of Oakland 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 Health Department's financial reporting and to determine the MDHHS shares of cost according to the agreements, and program standards and regulations. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, federal standards, program standards and generally accepted accounting principles.
2. To determine the MDHHS shares of cost in accordance with MDHHS requirements and the agreements, Federal standards and program standards, 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 period October 1, 2016 to September 30, 2017. Our audit procedures included the following:

- Reviewed the most recent Health Department's Single Audit and Financial Statement Audit Reports for any WIC Program related concerns.

- Reviewed the Grant Agreement, Budgets, and Program Specific Assurances and Requirements.
- Reviewed policies to ensure they meet applicable requirements and guidelines.
- Reviewed the most recently completed Subrecipient Questionnaire.
- Reconciled the WIC Program Financial Status Reports (FSRs) and MDHHS payment schedules to the accounting records.
- Tested a selection of payroll and non-payroll expenditures for program compliance; and adherence to policies, Federal and program guidelines 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.

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 and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, program standards, and generally accepted accounting principles.

**Conclusion:** The Health Department was generally effective and accurate in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, program standards, and generally accepted accounting principles. We identified the following exceptions: subrecipient improperly classified as contractor and improperly paid fixed amounts (Finding 1) and internal service funds working capital reserves exceed allowable limits (Finding 2).

#### **Finding**

#### **1. Subrecipient Improperly Classified as Contractor and Improperly Paid Fixed Amounts**

Federal Agency	U.S. Department of Agriculture
Federal Sub-Tier	Food and Nutrition Service
Federal Program Title	Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA Number	10.557
Project Title	Women, Infants, and Children (WIC)
Amount Due to MDHHS	\$0
Repeat Finding	No

The Health Department erroneously determined that their agreement with a subrecipient agency was a contractor relationship, and improperly paid this subrecipient fixed amounts per quarter in violation of Federal regulations.

The Health Department is required to make case-by-case determinations whether each agreement it makes for the disbursement of Federal program funds casts the party receiving the funds in the role of a subrecipient or a contractor. Title 2 CFR 200.330 provides the characteristics for each. For a subrecipient, the characteristics that support this classification include... “(1) Determines who is eligible to receive what Federal assistance; (2) Has its performance measured in relation to whether objectives of a Federal program were met; (3) Has responsibility for programmatic decision making; (4) Is responsible for adherence to applicable Federal program requirements specified in the Federal award; and (5) In accordance with its agreement, uses the Federal funds to carry out a program for a public purpose specified in authorizing statute, as opposed to providing goods or services for the benefit of the pass-through entity.”

Also, according to Title 2 CFR 200.331, subawards to subrecipients must include the following specific information... “(1) Federal Award Identification. (i) Subrecipient name (ii) Subrecipient’s unique entity identifier; (iii) Federal Award Identification Number (FAIN); (iv) Federal Award Date; (v) Subaward Period of Performance Start and End Date; (vi) Amount of Federal Funds Obligated by this action by the pass-through entity to the subrecipient; (vii) Total amount of Federal Funds Obligated to the subrecipient by the pass-through entity including the current obligation; (viii) Total Amount of Federal Award committed to the subrecipient by the pass-through entity; (ix) Federal award project description, as required to be responsive to the Federal Funding Accountability and Transparency Act (FFATA); (x) Name of Federal awarding agency, pass-through entity, and contact information for awarding official of the pass-through entity, (xi) CFDA Number and Name; the pass-through entity must identify the dollar amount made available under each Federal award and the CFDA number at time of disbursement; (xii) Identification of whether the award is R&D; and (xiii) Indirect cost rate for the Federal award (including if the de minimis rate is charged per 200.414 Indirect (F&A) costs).”

In addition, Title 2 CFR 200.332 for Fixed amount subawards states, “With prior written approval from the Federal awarding agency, a pass-through entity may provide subawards based on fixed amounts up to the Simplified Acquisition Threshold, provided that the subawards meet the requirements for fixed amount subawards in 200.201 Use of grant agreements (including fixed amount awards), cooperative agreements, and contracts.”

Further, we noted in Title 2 CFR 200.309 Period of performance states, “A non-Federal entity may charge to the Federal award only allowable costs incurred during the period of performance...” The total cost of a Federal Award, which is a subaward and not a procurement contract, is the sum of the allowable direct and allocable indirect costs less any applicable credits according to 2 CFR 200.402.

During our review, we noted that the Health Department had an agreement with Oakland Livingston Human Service Agency (OLHSA) whereby OLHSA implemented the WIC Program and WIC Breastfeeding Peer-Counseling Program for the Health Department in six specified areas within the county. The Health Department paid OLHSA under a procurement contract a fixed quarterly amount with a “Not-to-Exceed” amount of \$431,550 for the WIC Program and \$73,397 for the WIC Breastfeeding Peer-Counseling Program. The Health Department paid a total of \$503,947 for the WIC Programs for fiscal year end September 30, 2017. All characteristics supporting a subrecipient classification were present. OLHSA was carrying out the WIC Program for the Health Department in the six specified areas within the county, and the agreement should have been classified as a subaward rather than a procurement contract. The information required by 2 CFR 200.331 for a subaward was lacking from the written agreement that was noted above. Furthermore, a fixed amount subaward is not permissible due to the amount of the award. Accordingly, reimbursement must be based on actual cost incurred according to 2 CFR 200.309 and .402.

### **Recommendation**

We recommend that the Health Department amend the contract so that the subaward has all required provisions. We also recommend that the Health Department ensure that payments to subrecipients are based on actual costs incurred. In addition, we recommend that the Health Department perform all subrecipient monitoring and management requirements of 2 CFR 200.331 to ensure compliance with Federal regulation.

### **Finding**

#### **2. Internal Service Funds Working Capital Reserves Exceed Allowable Limits (Repeat)**

Federal Agency	U.S. Department of Agriculture
Federal Sub-Tier	Food and Nutrition Service
Federal Program Title	Supplemental Nutrition Program for Women, Infants, and Children (WIC)
CFDA Number	10.557
Project Title	Women, Infants, and Children (WIC)
Amount Due to MDHHS	\$0
Repeat Finding	FY 2012 – Finding 2

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

Oakland 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 September 30, 2017 financial statements, the County had accumulated excess balances for two internal service funds.

Title 2 CFR Part 200, Appendix V, Section 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 calendar days cash expenses for normal operating purposes is considered reasonable.

The following represents an analysis of Oakland County's Internal Service Funds for the Year Ended September 30, 2017 for the funds that exceeded the allowable limits:

	(A)	(B)	(C)	
Fund	Adjusted Retained Earnings 2 CFR Part 200	60-Day Operating Expenses	Excess A-B	Months of Excess C/B x 2
Telephone	\$ 1,292,537	\$ 467,157	\$ 825,380	3.5
Drain Equipment	\$ 15,737,183	\$ 6,061,895	\$ 9,675,288	3.2

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

### **Recommendation**

This exception was noted during the previous audit. As of FYE 2012, excess reserves for four funds were identified, including the Telephone Fund. The planned corrective action plan was to "...monitor the health of the Fund and make appropriate adjustments. Charged rates for the funds in question were reduced beginning October 1, 2013, the start of FY 2014...."

We again recommend that Oakland 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 2020 by either cash refunds or adjustments to future billing rates/allocations.

## **MDHHS SHARES OF COST AND BALANCE DUE**

**Objective 2:** To determine the MDHHS shares of cost in accordance with MDHHS requirements and agreements, Federal standards and program standards and any balance due to or due from the Health Department.

**Conclusion:** The MDHHS obligations for fiscal year ended September 30, 2017 are \$2,435,330 for the WIC Resident Services Grant and \$152,429 for the WIC Breastfeeding Grant. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs.



**Oakland County Health Division  
WIC Resident Services  
Statement of Grant Program Revenues and Expenditures  
10/1/16 - 9/30/17**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$2,435,330	\$2,435,330 <sup>1</sup>		\$2,435,330
Local Funds - Other	\$252,924	\$108,513		\$108,513
<b>TOTAL REVENUES</b>	\$2,688,254	\$2,543,843	\$0	\$2,543,843
<b>EXPENDITURES:</b>				
Salary & Wages	\$939,874	\$881,887		\$881,887
Fringe Benefits	\$673,664	\$571,757		\$571,757
Contractual	\$431,550	\$431,550		\$431,550
Supplies & Materials	\$43,521	\$36,082		\$36,082
Travel	\$5,645	\$5,067		\$5,067
Communication	\$16,860	\$15,988		\$15,988
Space Costs	\$90,644	\$95,069		\$95,069
Other	\$103,399	\$104,282		\$104,282
Indirect Costs	\$130,173	\$105,022		\$105,022
Other Costs Distributions	\$252,924	\$297,139		\$297,139
<b>TOTAL EXPENDITURES</b>	\$2,688,254	\$2,543,843	\$0	\$2,543,843

<sup>1</sup> Actual MDHHS payments.

**Oakland County Health Division  
WIC Breastfeeding  
Statement of Grant Program Revenues and Expenditures  
10/1/16 - 9/30/17**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$157,314	\$152,429 <sup>1</sup>		\$152,429
Local Funds - Other	\$12,943	\$0		\$0
<b>TOTAL REVENUES</b>	<b>\$170,257</b>	<b>\$152,429</b>	<b>\$0</b>	<b>\$152,429</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$48,826	\$30,601		\$30,601
Fringe Benefits	\$21,995	\$28,706		\$28,706
Contractual	\$73,397	\$73,397		\$73,397
Supplies & Materials	\$2,786	\$0		\$0
Travel	\$828	\$437		\$437
Communication	\$3,120	\$94		\$94
Other	\$547	\$158		\$158
Indirect Costs	\$5,815	\$3,644		\$3,644
Other Costs Distributions	\$12,943	\$15,392		\$15,392
<b>TOTAL EXPENDITURES</b>	<b>\$170,257</b>	<b>\$152,429</b>	<b>\$0</b>	<b>\$152,429</b>

<sup>1</sup> Actual MDHHS payments.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** **Subrecipient Improperly Classified as Contractor and Improperly Paid Fixed Amounts**

The Health Department erroneously determined that their agreement with a subrecipient agency was a contractor relationship, and improperly paid this subrecipient fixed amounts per quarter in violation of Federal regulations.

**Recommendation:** Amend the contract so that the subaward has all required provisions. Also, ensure that payments to subrecipients are based on actual costs incurred. In addition, perform all subrecipient monitoring and management requirements of 2 CFR 200.331 to ensure compliance with Federal regulation.

**Comments:** The County has the Subrecipient Monitoring Procedures in place to identify the relationship of the organization that the County is providing funding to as either a subrecipient or contractor during the grant application or acceptance stage. Project managers have used their best judgment to determine the relationship when all of the characteristics listed in Title 2 CFR 200.330 may not be present. The Subrecipient Monitoring Procedures has been posted in the link below.

[https://oakgov.sharepoint.com/sites/intranet/departments/fiscal/Documents/Subrecipient\\_Monitoring\\_Procedures.pdf](https://oakgov.sharepoint.com/sites/intranet/departments/fiscal/Documents/Subrecipient_Monitoring_Procedures.pdf)

**Corrective Action:** The Health & Human Services Department Project manager should document how the relationship was determined including, if necessary, clarification from the granting agency in writing (The Subrecipient Monitoring Procedures p.2).

The Health & Human Services Department project manager is working with Corporation Counsel to draft a subrecipient agreement for FY2020 Comprehensive Planning, Budgeting, and Contracting Agreement. The subrecipient agreement with OLHSA is clearly identified the subrecipient relationship and includes the specific information required by Title 2 CFR 200.331.

- OLHSA will be paid on a reimbursement basis for the allowable costs incurred during the period of performance (Title 2 CFR 200.309). The required financial documents for the requests for payments should be provided from OLHSA and reviewed for accuracy prior to reimbursement.

- The Health & Human Services Department and Fiscal Services will develop a subrecipient monitoring plan for the Health & Human Services Grants. The Oakland County Subrecipient Monitoring Procedures will be revised by adding the new plan.

**Person Responsible  
for Implementation:**

Department of Health and Human Services, Fiscal Services, and Corporation Counsel

**Anticipated  
Completion Date:**

September 30, 2019

**MDHHS Response:**

None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** **Internal Service Funds Working Capital Reserves Exceed Allowable Limits (Repeat)**

Oakland County had two Internal Service Funds 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 limits (60 days cash expenses) by FYE 2020 by either cash refunds or adjustments to future billing rates/allocations.

**Comments:** Telephone Communications Fund: This fund is responsible for the operations of the County's telephone communication infrastructure and equipment. A large-scale effort is underway to replace the existing communication network with a Universal Communication and Collaboration (UCC) project.

Drain Equipment Fund: This fund accounts for vehicles, equipment and some of the buildings that are used for the Water Resources Commissioner's office in their services to multiple wholesale sewage disposal systems, water and sewer retails systems, drainage districts, and maintenance of lake levels in the County. The fund provides for certain capital related costs and operational expenses.

**Corrective Action:** The Telephone Communications Fund provided \$2.0 million in FY 2019 toward the overall (UCC) project (estimated overall project cost of \$10,727,322). The UCC system will provide

additional services to the users and there are expected increased on-going operational costs as a result. The rate structure is being reviewed and will be adjusted accordingly to maintain the necessary working capital reserves.

The Drain Equipment Fund has a long-term capital budget plan to fulfill its operational requirements of the systems previously noted. Reserves have been built over time to help with the execution of the long-term capital plan. Rates were recently reviewed and adjusted to take into account their capital and operational needs. The rates will be further reviewed and adjusted accordingly.

**Person Responsible  
for Implementation:**

Telephone Communications Fund: Mike Timm, Director of Information Technology  
Drain Equipment Fund: Tim Prince, Chief Manager Water Resources Commissioner

**Anticipated  
Completion Date:**

September 30, 2019 for the Telephone Communications Fund  
September 30, 2020 for the Drain Equipment Fund

**MDHHS Response:** None