



STATE OF MICHIGAN

RICK SNYDER
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

NICK LYON
DIRECTOR

November 22, 2016

Theresa Branson, BS, MHA, Deputy Health Officer
Kent County Health Department
700 Fuller Avenue, NE
Grand Rapids, MI 49503-1996

Dear Ms. Branson:

Enclosed is our final report from the Michigan Department of Health and Human Services (MDHHS) audit of the Kent County Health Department WIC Program for the period October 1, 2014 through September 30, 2015.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions; Statements of Grant Program Revenues and Expenditures; and Corrective Action Plan. The Corrective Action Plan includes the agency's response to the Preliminary Analysis.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script, reading "Debra S. Hallenbeck".

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: Stan Bien, Director, WIC Division
Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance
Bryce Wooton, Auditor, Quality Assurance and Review
Gail L. Brink, Finance Director, Kent County Health Department

Audit Report

Kent County Health Department WIC Program

October 1, 2014 – September 30, 2015



Bureau of Audit, Reimbursement, and Quality Assurance
Quality Assurance and Review
November 2016

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DESCRIPTION OF AGENCY

The Kent 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 Kent County, and the administrative office is located in Grand Rapids, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Kent County. The Health Department provides community health program services to the residents of Kent 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) provides the Health Department with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget. The 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 and WIC Breastfeeding Programs financial reporting, and to determine the MDHHS share of costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in reporting their WIC Program and WIC Breastfeeding 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 costs for the WIC and WIC Breastfeeding 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, 2014 to September 30, 2015. Our review procedures included the following:

- Reviewed the most recent Kent County 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 policy and approval procedures.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Review WIC equipment inventory.
- 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 and WIC Breastfeeding 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 their WIC Program and WIC Breastfeeding Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted one exception related to internal service fund working capital reserves (Finding 1) (Repeat).

Finding

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

Kent County's Unemployment and Workers' Compensation internal service funds had working capital reserves that exceeded the allowable amounts as of December 31, 2015 according to OMB Circular A-87.

Kent County is self-insured for the majority of its risk exposures, and accounts for its risk management activities in internal service funds. Kent County charges most Kent County Departments (including the Health Department) for medical, dental, unemployment, property and general liability, and workers' compensation insurance to recover costs and maintain reserves for each type of self-insured risk. However, based on the December 31, 2015 financial statements and the report issued by Maximus, the County had accumulated excess reserve balances for unemployment and workers' compensation.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix C, Sections G.3. and G.4. require comparisons of the charges to the actual allowable costs, and adjustments by one of several methods. Additionally, OMB Circular A-87, Appendix C, Section G.2., allows for the establishment and maintenance of a reasonable level of working capital reserve for internal service funds.

According to OMB Circular A-87, a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable. For employee-related coverages, reserve levels are normally limited to the value of claims submitted and adjudicated but not paid, submitted but not adjudicated, and incurred but not submitted. Reserve levels in excess of this amount must be identified and justified in the cost allocation plan according to OMB Circular A-87, Appendix B, Section 22.d.(3).

According to Maximus's analysis of Kent County's Internal Service Funds for the Year Ended December 31, 2015:

Fund	R.E. Adjusted for Catastrophic Losses (A)	60-Day Operating Expenses (B)	Excess Reserves (C) (A – B)	Months of Excess Reserves (D) ((C / B) x 2)
Unemployment	\$126,142	\$38,000	\$88,142	4.6
Workers' Comp	\$469,897	\$151,000	\$318,897	4.2

Reductions are needed to achieve compliance with Federal cost principles.

Recommendation

We recommend that Kent County devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit (60 days cash expenses) by FYE 2017 by either cash refunds or adjustments to future billing rates/allocations.

MDHHS SHARE OF COSTS AND BALANCE DUE

Objective 2: To determine the MDHHS share of costs for the WIC and WIC Breastfeeding Programs in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDHHS obligations under the WIC and WIC Breastfeeding Programs for fiscal year ended September 30, 2015 are \$3,244,648 and \$208,455, respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting the WIC or the WIC Breastfeeding/Peer Counseling Programs funding.

**Kent County Health Department
WIC Resident Services
Statement of Grant Program Revenues and Expenditures
10/1/14 - 9/30/15**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$3,244,648	\$3,244,648 ¹		\$3,244,648
Fees & Collections - 3rd Party	\$58,750	\$68,568		\$68,568
Federal Cost Based Reimbursement	\$325,000	\$356,671		\$356,671
Local Non - ELPHS	\$2,706	\$2,900		\$2,900
Local Funds - Other	\$393,102	\$181,063		\$181,063
TOTAL REVENUES	\$4,024,206	\$3,853,850	\$0	\$3,853,850
EXPENDITURES:				
Salary & Wages	\$1,792,770	\$1,844,641		\$1,844,641
Fringe Benefits	\$691,938	\$691,685		\$691,685
Contractual	\$268,882	\$246,391		\$246,391
Supplies & Materials	\$84,453	\$102,408		\$102,408
Travel	\$13,750	\$11,880		\$11,880
Communication	\$16,657	\$14,952		\$14,952
Space Costs	\$124,857	\$114,091		\$114,091
Other	\$90,533	\$73,582		\$73,582
Indirect Costs	\$799,858	\$674,073		\$674,073
Other Costs Distributions	\$140,508	\$80,147		\$80,147
TOTAL EXPENDITURES	\$4,024,206	\$3,853,850	\$0	\$3,853,850

¹ Actual MDHHS payments.

**Kent County Health Department
WIC Breastfeeding
Statement of Grant Program Revenues and Expenditures
10/1/14 - 9/30/15**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$208,455	\$208,455 ¹		\$208,455
Local Funds - Other	\$61,535	\$58,764		\$58,764
TOTAL REVENUES	\$269,990	\$267,219	\$0	\$267,219
EXPENDITURES:				
Salary & Wages	\$142,357	\$142,978		\$142,978
Fringe Benefits	\$64,777	\$68,810		\$68,810
Supplies & Materials	\$1,000	\$801		\$801
Travel	\$1,500	\$890		\$890
Communication	\$300	\$305		\$305
Indirect Costs	\$50,666	\$47,806		\$47,806
Other Costs Distributions	\$9,390	\$5,629		\$5,629
TOTAL EXPENDITURES	\$269,990	\$267,219	\$0	\$267,219

¹ Actual MDHHS payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

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

Kent County's Unemployment and Workers' Compensation internal service funds had working capital reserves that exceeded the allowable amounts as of December 31, 2015 according to OMB Circular A-87.

Recommendation: Devise a plan to ensure the Internal Service Funds working capital reserves are reduced to the allowable limit by FYE 2017 by either cash refunds or adjustments to future billing rates/allocations.

**Health Department
Comments:**

Kent County is self-funded for unemployment and workers' compensation, and utilizes internal service funds to account for all insurance. In 2013, Kent County implemented a Self-insured Risk Exposure Funding Procedure and established a method to calculate targeted reserve levels to ensure adequate cash for both working capital and catastrophic losses is maintained for the internal service funds. As part of those procedures, annually the targeted reserves are calculated and subsequently adjustments are made to increase or decrease rates charged for the estimated expenses, along with any adjustments needed to the Fund Balance to maintain an adequate targeted reserve.

Corrective Action: Effective January 1, 2016, both the unemployment rates and the workers' compensation rates were reduced based on the 2014 final targeted reserve calculation. Effective January 1, 2017, an additional reduction to the unemployment and workers' compensation rates will be implemented based on the 2015 final targeted reserve, to reduce the fund balance to the calculated targeted reserve level.

Anticipated

Completion Date: Kent County anticipates that the fund balance for these two internal service funds will be reduced to the targeted reserve amount by December 31, 2017.

MDHHS Response: None.