

Audit Report

Kent County Health Department WIC Program

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review Section
September 2014



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JAMES K. HAVEMAN
DIRECTOR

September 10, 2014

Theresa Branson, BS, MHA, Deputy Health Officer
Kent County Health Department
700 Fuller Ave., NE
Grand Rapids, Michigan 49503

Dear Ms. Branson:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Kent County Health Department WIC Program for the period October 1, 2012 through September 30, 2013.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of MDCH Grant Program Revenues and Expenditures; and Corrective Action Plans. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

As noted in Finding #2, we determined that \$2,672 is due back to MDCH for the Children's Special Health Care Services Program (\$453) and the Nurse Family Partnership Program (\$2,219). Please remit a check for \$2,672 made payable to the State of Michigan by October 10, 2014 to:

Lisa M. Halverson, Manager
Revenue Operations Section, Accounting Division
Michigan Department of Community Health
P.O. Box 30437
Lansing, Michigan 48909

Thank you for the cooperation extended throughout this audit process.

Sincerely,

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

Enclosure

cc: Stan Bien, Director, MDCH WIC Division
Pam Myers, Director, MDCH Office of Audit
Lisa Halverson, Manager, Revenue Operations Section, MDCH Accounting Division

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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. These services include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Children's Special Health Care Services, Breast and Cervical Cancer Control, Maternal and Child Health, Childhood Lead, Medicaid Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, and Women Infants and Children (WIC) Supplemental Food Program.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) 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.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

PURPOSE AND OBJECTIVES

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

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH 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, 2012 to September 30, 2013. Our review procedures included the following:

- Reviewed the most recent Kent County Single Audit report for any WIC Program concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- 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

INTERNAL CONTROLS

Objective 1: To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted exceptions related to internal service fund working capital reserves (Finding 1), indirect cost allocations (Finding 2), and payroll distributions (Finding 3).

Finding

1. Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Kent County's Health, Unemployment, Property & Liability, and Workers' Compensation internal service funds had working capital reserves that exceeded the allowable amounts as of December 31, 2012 according to OMB Circular A-87.

Kent County charges most Kent County Departments (including the Health Department) for medical, dental, unemployment, property and general liability insurance. The County also uses an internal service fund to charge each department for workers' compensation expense. The funds are used to finance the cost of providing insurance and various employee benefits. Based on the December 31, 2012 financial statements and the report issued by Maximus, the County had accumulated excess balances for all funds except for the Dental Insurance fund.

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.

According to Kent County's Combining Statement of Revenues, Expenditures, and Changes in Fund Net Position for the Year Ended December 31, 2012:

Fund	Cash Expenses	60-Day Requirement	Reserves	Excess
Health	\$16,537,999	\$2,756,333	\$8,969,045	\$6,212,712
Unemployment	166,969	27,828	278,755	250,927
Property/Liability	2,354,233	392,375	1,208,354	815,982
Workers' Comp	639,870	106,645	323,209	216,564

Reductions are needed to achieve compliance with OMB Circular A-87.

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 2015 by either cash refunds or adjustments to future billing rates/allocations.

Finding

2. Misstated Indirect Costs

The Health Department misstated indirect costs by including a capital asset and unallowable dental clinic costs in the indirect cost pool.

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section C. 1., to be allowable under Federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards, be allocable, and conform to any limitations or exclusions set forth in the terms and conditions of the Federal award or other governing regulations as to types or amounts of cost items.

Per OMB Circular A-87, Appendix B, Section 15. b. (5), *“Equipment and other capital expenditures are **unallowable as indirect costs**.”*

Per OMB Circular A-87, Appendix B, Section 11. a. *“Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use.”*

The Health Department included \$50,000 for pre-operational costs (acquisition and development of network service and software, and training of staff on computer software and associated costs) relating to a new dental clinic in Kentwood in the Agency Support indirect cost pool. The costs were thus allocated to ALL Health Department programs, including WIC, Children Special Health Care Services (CSHCS) and Nurse Family Partnership among others. The capital expenditure is unallowable as an indirect cost. Also, the costs of establishing a dental clinic are not necessary and reasonable for the administration of all of the Federal programs charged, do not conform to the limitations set forth in the terms and conditions of the awards as to types of cost items, and have not been approved as an allowable expenditure under the Federal award budgets.

Also, the Health Department improperly included a capital expenditure in the Agency Support indirect cost pool. The Health Department expensed a snow removal tractor in the amount of \$17,400. Only the current year depreciation for this capital expense (\$3,480) is allowed.

We recalculated the administration overhead expenses by removing the dental clinic costs, and removing the unallowable capital expenditure (tractor), and adding allowable depreciation based on a 5-year useful life. The differences are shown as adjustments on the attached Statements of MDCH Grant Program Revenues and Expenditures. For WIC and WIC Breastfeeding, the Health Department does not owe any money back to MDCH since local funding exceeded the adjustments. However, when allocating the correct administration overhead expenses to other programs, we found that \$453 is due back for the Children’s Special Health Care Services Program, and \$2,219 is due back for the Nurse Family Partnership Program.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that only necessary and reasonable costs are allocated to benefitting programs that permit such costs, and depreciation rather than capital expenditures are included in the indirect cost pool.

Finding

3. Lack of Approval for Substitute Salary Distribution Methodology

The Health Department does not use personnel activity reports when allocating personnel costs between the WIC Program and the Immunizations Program, and the substitute system has not received approval.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix B, Section 8.h.(4) states,

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation...unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

A number of WIC Program employees spend significant time on activities relating to the Immunizations Program. The Health Department does not require their employees to complete personnel activity reports for allocating time between the WIC Program and the Immunizations Program. Alternatively, the Health Department determines the amount to allocate to salaries by the percentage of visits between WIC and Immunizations.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that distributions of salaries and wages are supported by personnel activity reports, or any substitute distribution system is properly approved in accordance with OMB Circular A-87.

MDCH SHARE OF COSTS

Objective 3: To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligation under the WIC Supplemental Food Program is \$3,424,639 and under the WIC Breastfeeding/Peer Counseling Program is \$208,455 for fiscal year ended September 30, 2013. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting the WIC Supplemental Food Program or the WIC Breastfeeding/Peer Counseling Program funding. However, Finding #2 did affect funding for Children's Special Health Care Services Program (\$453) and Nurse Family Partnership Program (\$2,219). The Health Department owes a total of \$2,672 back to MDCH.

**Kent County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$3,424,639	\$3,424,639 ¹	\$0	\$3,424,639
Fees and Collections – 3 rd Party	\$58,900	\$51,012	\$0	\$51,012
Federal or State (Non MDCH)	\$29,728	\$42,589	\$0	\$42,589
Local Non-ELPHS	\$5,864	\$12,097	\$0	\$12,097
Local Non-LPHO	\$705,854	\$343,010	(\$11,180)	\$331,830
TOTAL REVENUES	\$4,224,985	\$3,873,347	(\$11,180)	\$3,862,167
EXPENDITURES:				
Salary and Wages	\$1,965,812	\$1,823,707	\$0	\$1,823,707
Fringe Benefits	\$745,136	\$643,163	\$0	\$643,163
Contractual	\$292,335	\$265,663	\$0	\$265,663
Supplies	\$77,473	\$101,586	\$0	\$101,586
Travel	\$17,350	\$13,575	\$0	\$13,575
Communications	\$16,255	\$17,697	\$0	\$17,697
Space Cost	\$123,037	\$154,224	\$0	\$154,224
Other Expense	\$104,169	\$123,323	\$0	\$123,323
Admin. - Indirect Cost	\$767,742	\$623,915	(\$11,180) ²	\$612,735
Clinic Services Ovhd.	\$115,676	\$106,494	\$0	\$106,494
TOTAL EXPENDITURES	\$4,224,985	\$3,873,347	(\$11,180)	\$3,862,167

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Misstated Administration Indirect Cost (Finding 2).

**Kent County Health Department
WIC Breastfeeding/Peer Counseling Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$208,455	\$208,455 ¹	\$0	\$208,455
Local and Other Funds	\$45,036	\$11,347	(\$633)	\$10,714
TOTAL REVENUES	\$253,491	\$219,802	(\$633)	\$219,169
EXPENDITURES:				
Salary and Wages	\$132,072	\$125,712	\$0	\$125,712
Fringe Benefits	\$68,714	\$48,858	\$0	\$48,858
Contractual	\$0	\$0	\$0	\$0
Supplies	\$1,200	\$1,539	\$0	\$1,539
Travel	\$650	\$1,667	\$0	\$1,667
Communications	\$240	\$471	\$0	\$471
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$0	\$178	\$0	\$178
Admin. - Indirect Cost	\$43,719	\$35,343	(\$633) ²	\$34,710
Clinic Services Ovhd.	\$6,896	\$6,034	\$0	\$6,034
TOTAL EXPENDITURES	\$253,491	\$219,802	(\$633)	\$219,169

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Misstated Administration Overhead Cost (Finding 2).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Internal Service Fund Working Capital Reserves Exceed Allowable Amounts

Kent County's Health, Unemployment, Property & Liability, and Workers' Compensation internal service funds had working capital reserves that exceeded the allowable amounts as of December 31, 2012 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 (60 days cash expenses) by FYE 2015 by either cash refunds or adjustments to future billing rates/allocations.

**Health Department
Comments:**

Kent County is self-insured for the majority of its risk exposures, including Health, Unemployment, Property & Liability, and Workers Compensation. OMB Circular A-87 permits a working capital reserve up to 60 days to cover cash expenses for normal operating purposes. However, Kent County is liable for losses related to a given risk exposure until any excess/stop loss coverage, if available, takes over. In analyzing the 60-day working capital reserve amounts, the amounts are not sufficient or appropriate for the various risk exposure types Kent County has, especially given the potential exposure for catastrophic loss that comes with a self-insurance program. GAAP contemplates that charges from an internal service fund will "include a reasonable provision for future catastrophic losses." As a result, the County, working closely with our external audit firm, established Self-Insured Risk Exposure Funding Procedures, which use actuarial methods to establish targeted reserves for all of the Risk Management Internal

Service Funds. The County has established a separate “target reserve” for each type of self-insured risk, based on a variety of factors listed in the procedures. Rehmann, the County’s external audit firm, provided us with a letter indicating that they reviewed the Self-Insured Risk Exposure Funding Procedure the County established and implemented, and they believe this is consistent with applicable regulations and pronouncements.

Corrective Action: Kent County uses actuarial methods to monitor and adjust the “target reserves” established in the Self-Insured Risk Exposure Funding Procedures for all of the Risk Management Internal Service Funds on an annual basis. Rates are adjusted annually and applied to the individual Risk Management Internal Service Funds to reduce or increase “targeted reserves” as necessary to comply with the established Self-Insured Risk Exposure Funding Procedures. As of December 31, 2013, Kent County reduced the net position for the Health, Unemployment, Property & Liability, and Workers Compensation funds by adjusting rates. Kent County has also adjusted rates for the 2014 Health fund and the current projection is that Kent County will draw down approximately \$2.5 to \$3 million, which will result in this fund falling within the Self-Insured Funding Procedures targeted reserves by December 31, 2014. Rate adjustments will continue to be implemented on an annual basis to adjust net position for all the Internal Service Funds as necessary to comply with the Self-Insured Risk Exposure Funding Procedures.

Anticipated Completion Date: December 31, 2013 for all funds except Health
December 31, 2014 for the Health Fund.

MDCH Response: According to OMB Circular A-87, Attachment B, Section 22. d., contributions to a reserve for self-insurance programs must be based on

sound actuarial principles using historical experience and reasonable assumptions, and levels must be analyzed and updated at least biennially. Reserve levels related to employee-related coverages will normally be 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 the amounts based on the above must be identified and justified. Furthermore, records must recognize any significant differences due to the types of insured risk and losses generated. Kent County's Self-Insured Risk Exposure Funding Procedure adequately explains the approaches for rate setting and the establishment of reserves for working capital and catastrophic losses. The factors used in establishing reserves appear reasonable. We recommend, however, that the Self-Insured Risk Exposure Targeted Reserve calculation schedules be modified to more clearly show how the target reserves for working capital and catastrophic losses are specifically calculated. Budget overages, spikes, changes and deductibles are all presented. However, it is uncertain how each of these are factored into the calculations.

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Misstated Indirect Costs

The Health Department misstated indirect costs by including a capital asset and unallowable dental clinic costs in the indirect cost pool.

Recommendation: Implement policies and procedures to ensure that only necessary and reasonable costs are allocated to benefitting programs that permit such costs, and depreciation rather than capital expenditures are included in indirect cost pools.

**Health Department
Comments:**

The Health Department included the dental clinic costs into the indirect cost pool because we believe that these costs do benefit every program that is allocated indirect costs within the Health Department, and that it is an allowable expense. The capital asset included in the indirect cost pool was equipment purchased by the facilities staff that the Health Department does not control. This equipment expense should have been removed from the indirect cost pool and depreciation added to the pool. The Health Department staff recalculated the indirect cost allocation with the cost of the equipment removed and the depreciation added. It was determined that there was no effect on the WIC Program funding, so no adjustment was made.

Corrective Action: The Health Department staff will make adjustments to the indirect cost pool for unallowable expenses, even though there is no effect on the program funding.

**Anticipated
Completion Date:** Immediate

MDCH Response: The dental clinic cost is a capital expenditure and unallowable as an indirect cost according to Federal cost principles. Also, the cost of establishing a dental clinic is not necessary and reasonable for the administration of all of the Federal programs charged, do not conform to the limitations set forth in the terms and conditions of the awards as to types of cost items, and have not been approved as an allowable expenditure under the Federal award budgets.

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: **Lack of Approval for Substitute Salary Distribution Methodology**

The Health Department does not use personnel activity reports when allocating personnel costs between the WIC Program and the Immunizations Program, and the substitute system has not received approval.

Recommendation: Implement policies and procedures to ensure that distributions of salaries and wages are supported by personnel activity reports, or any substitute timekeeping system is properly approved in accordance with OMB Circular A-87.

Health Department

Comments: The Health Department staff does keep daily personnel activity reports. The activity that is tracked daily is the number of visits in WIC and Imms that are completed. Staff do not track how many minutes they work in a day. The daily reports are totaled on a monthly basis, and the total is used to record salary and fringe costs to the applicable WIC or Immunization program. If the actual calculation is 10% or less than the budgeted salary and fringe costs, no adjustment to staff costs is made.

Corrective Action: The Health Department would like clarification that tracking daily number of visits by employee isn't considered daily personnel activity reports. If not, the Health Department will work to create a daily time record keeping system. The Health Department does not currently have an automated system to track this.

**Anticipated
Completion Date:** December 31, 2014

MDCH Response: The distribution of salaries and wages must be supported by personnel activity reports reflecting an after-the-fact distribution of the actual activity of each employee. A distribution by the proportional number of visits in each program would not represent *personnel activity* as the time for each type of visit likely varies. Substitute systems, such as the one currently used, requires approval. In fact, OMB Circular A-87, Appendix B, Section h. (6) specifically mentions the use of “case counts” as a substitute system. The Health Department Comments (stated above) mention the use of budgeted amounts and if the difference from actual is less than 10%, no adjustment is made. Section h. (5)(e)(ii.) requires adjustments regardless of the difference; if the difference is less than 10%, the adjustment may be made annually rather than quarterly.

The new Uniform Guidance located at 2 CFR 200, which will become effective for grants issued after December 26, 2014, also notes “case counts” as a substitute system that requires approval at 2 CFR 200.430(i)(5). Under the new guidance, the Health Department is responsible for ensuring the records accurately reflect the work performed, and they are supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated.