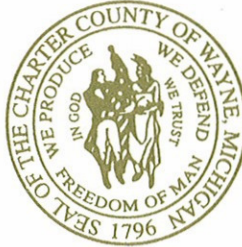


Office of Legislative
Auditor General

WILLIE MAYO, CPA, CIA, CICA
AUDITOR GENERAL



500 GRISWOLD STREET
STE. 848; GUARDIAN BLDG.
DETROIT, MICHIGAN 48226
TELEPHONE: (313) 224-0924

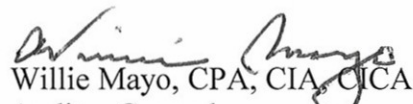
September 1, 2011

FINAL REPORT TRANSMITTAL LETTER

Honorable Wayne County Commissioners:

Enclosed is our final copy of the Office of Legislative Auditor General's Operational Assessment Review Report on the Food Safety Unit, Environmental Health Division, Wayne County Health Department, Department of Health and Human Services. Our report is dated, June 8, 2011; DAP No. 2011-57-850. The contents of this report did not change from the draft report previously issued. The report was accepted by the Audit Committee at its meeting held on August 23, 2011 and formally received by the Wayne County Commission on September 1, 2011.

You will be pleased to know that officials and staff in the Food Safety Unit, Environmental Health Division, Wayne County Health Department, Department of Health and Human Services and Management & Budget offered their full and complete cooperation during the review. If you have any questions, concerns, or desire to discuss the draft report in greater detail, we would be happy to do so at your convenience. This report is intended for your information and should not be used for any other purposes. Copies of all Office of Legislative Auditor General's final reports can be found on our website: <http://www.waynecounty.com/commission/lagreports.htm>


Willie Mayo, CPA, CIA, CICA
Auditor General

REPORT DISTRIBUTION

Wayne County Health and Human Services

Edith J. Killins, Director
Loretta Davis, Health Officer, Health Department
Carol Austerberry, Environmental Health Director, Health Department

Wayne County Department of Management & Budget

Carla E. Sledge, Chief Financial Officer
Terry L. Hasse, Director, Grants Compliance and Contracts Management
Andre Stringfellow, HHS Central Finance Director

Wayne County Executive





County of Wayne, Michigan
Office of Legislative Auditor General
Operational Assessment Review

FOOD SAFETY UNIT
ENVIRONMENTAL HEALTH DIVISION
WAYNE COUNTY HEALTH DEPARTMENT
DEPARTMENT OF HEALTH AND HUMAN SERVICES

DAP NO. 2011-57-850

June 8, 2011

Objectives, Scope and Methodology

Objectives

The Office of Legislative Auditor General has performed an Operational Assessment Review of the ***Food Safety Unit, Environmental Health Division, Wayne County Health Department, Department of Health and Human Services (Food Safety Unit)***. The purpose of our review was to identify key risks to this function or activity and assess whether management has appropriate internal controls and processes in place to sufficiently manage or mitigate such risk(s). Our specific objectives for the engagement were to identify and assess key risk in the following areas:

- I. Governance;
- II. Risk Management and Control Activities;
- III. Compliance with Laws, Regulations and Ordinances; and
- IV. Financial Activity

Scope

The primary period of review for this engagement was October 1, 2009 – January 31, 2011 and the fieldwork for this engagement was performed at Food Safety Unit's offices and completed on June 8, 2011.

IIA Consulting Standards

This engagement was performed in accordance with Consulting Standards defined by the International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors (IIA). The IIA defines consulting engagements as advisory and related service activities, the nature and scope of which is to add value.

Methodology

The procedures performed for this engagement were limited and were not sufficient to constitute an audit in accordance with Government Auditing Standards issued by the Comptroller General of the United States. The procedures performed were primarily limited to inquiry of appropriate personnel and officials of the Food Safety Unit and others, review of certain documents to corroborate assertions, and a walk-through of key strategic and business processes.

Purpose and Organizational Structure

The mission of the Food Safety Unit is to protect and promote the health of the people in Wayne County by preventing food related illnesses. This is done by assuring food service establishments comply with food safety regulations (FDA Food Code 2005 and Michigan Food Law of 2000).

The Food Safety Unit is one of the programs required to operate in order to receive Local Public Health Operations funding from the State of Michigan. The unit provides periodic food establishment inspections to businesses located in Wayne County excluding the City of Detroit, which operates its own program. In addition to the FDA Food Code 2005, the County's Food Safety Unit administers the Michigan Food Law of 2000. These standards are intended to protect and promote the public's health and provide for the prevention and control of diseases and disabilities.

The Michigan Department of Agriculture (MDA) has delegated the authority and responsibility for the enforcement of the state statutes to local health departments. The statutes require all establishments and vendors to apply for a food license or permit at their local health department prior to opening a food service establishment or dispensing food to the general public. The applicable license fee as established by Wayne County Ordinance No. 98-786 must accompany the application. The ordinance also authorizes the Food Safety Unit to assess late fees ranging up to \$125 per application on food service establishments renewing after the April 30th deadline. Upon recommendation by the local health department, the MDA issues the food service license. A food service license must be renewed annually by April 30th and the business owner must notify the local Health Department of any significant changes such as a transfer of ownership or major construction occurring at the establishment at that time. In addition, the MDA has established as part of their accreditation process, 21 "minimum program requirements" or standards that must be met and reported every three years for accreditation by the local health department on the Food Safety Unit.

The Food Safety Unit is responsible for inspecting all retail food establishments, school kitchens, and temporary food booths operating at fairs and community events in Wayne County. The Food Safety Unit also reviews plans and conducts preoperational inspections for new and remodeled food establishments. In addition, the Food Safety Unit investigates complaints of food borne illness and unsanitary conditions, provides food worker card classes and issues food worker cards, and conducts food safety training and certification for food establishment managers. In 2010, the Food Safety Unit provided 21,274 various services in Wayne County.

While the unit's primary funding is from state grants, licenses, and other fees collected from food establishments, the county's general fund provides

supplemental support to cover any program deficits. According to the department's central finance official, general fund support for the program has decreased for the past two years primarily due to reductions in rent and staff.

I. Governance

The governance process is considered one of the most important elements of internal controls. According to auditing/accounting literature, governance (also known as the control environment) is the foundation for all other components of internal controls. The control environment sets the tone for an organization, program, or activity, providing discipline and structure influencing the control consciousness of its employees. Control environment factors include: integrity, ethical values and competency of the organization's employees; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its employees.

The absence of a sound governance structure and lack of adherence to basic governance or management principles increases the risk of: loss, fraudulent financial reporting, misappropriation of assets and resources, and inability to achieve organizational goals and objectives. Good governance is one of the key controls to reduce the risk of management overrides.

Conclusion

Based on our inquiries, discussions, documentation review and observations, we generally concluded that the governance process including control environment, organizational structure, philosophy and ethical values or governance of the Food Safety Unit appears to be adequate to achieve the unit's mission, goals, and objectives. Specifically, management has more than 10 years' hands-on experience with the Food Safety industry.

We believe the Food Safety Unit governance processes are working well and this, among other things, can be attributed to the unit having monthly staff meetings in which they communicate with the staff on issues impacting their responsibilities. Strong leadership, self assessments, and extensive training is provided to the staff through on-site seminars and monitoring programs.

II. Risk Management and Control Activities

Risk Management

Risk Management is another critical internal control component. Every organization faces a variety of risks from external and internal sources that must be identified, and assessed with appropriate mechanisms in place to minimize high-risk activity. Risk Management is the identification and analysis of relevant risk, which exists within the organization as a whole, as well as within its individual components (departments, divisions, programs, etc.) regarding the achievement of the organization's objectives. After an assessment is formalized, a basis for determining how the risks should be managed and mitigated to a reasonable level of acceptance should be established.

The identification of risk is a necessary component to installing appropriate and sufficient compensating controls, where required, to enhance the probability of achieving the organization's objectives and protecting the interest of all stakeholders.

Conclusion

In order to achieve its program objectives, the Food Safety Unit appears to be effectively identifying risk and establishing necessary controls over key processes to mitigate those risks. The Food Safety Unit is working in conjunction with Wayne County's "Managing for Results" (MFR) program to establish performance measures and operational efficiencies. The program goes through a tri-annual accreditation program. According to officials, they expect to meet all requirements in the upcoming accreditation in August. Therefore, we can generally conclude that the Food Safety Program is managing risk well.

Control Activities

Control activities are policies, procedures, practices, techniques, and mechanisms that help ensure that management's directives are carried out. They help ensure that necessary actions are taken to address risks that may affect the achievement of the organization's objectives. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, and reviews of operations and performance, security of assets and segregation of duties.

Control activities can be preventive or detective. Preventive activities are designed to deter the occurrence of an undesirable event, while detective activities are designed to identify undesirable events that do occur and alert management about what has happened. This enables management to take corrective action promptly.

Conclusion

The program has a comprehensive policies and procedures manual in place which is updated on an annual basis. Management also routinely evaluates the effectiveness of the operations as part of its accreditation process. However, we did note an area where we believe risk management and control activity processes could be strengthened.

Area of Concern	Observation(s)
Website Creation	Wayne County's Food Inspection website doesn't provide certain information to the citizens and business owners of Wayne County such as, general information on new license or the renewal application process, license fees, and establishment inspection information. We were informed that initially, this information was on the website but when Department of Technology (DOT) upgraded their website this information was inadvertently omitted from the new website. We reviewed other surrounding county websites and found they contain this type of information that is useful to the public.

	<u>Impact</u> Not having food safety inspection information readily available to the residents and business owners can lead to the perception of the county not being transparent in providing vital information to the general public.
	<u>Recommendation(s)</u>
	<u>2011-01</u> We recommend that food inspection management work closely with the Department of Technology to restore the website to its original status prior to the upgrades, and the Food Safety Unit should review and update the website periodically.
	<u>Management's Response:</u> Management generally agrees in principle with this OAG recommendation.

III. Compliance, Laws, Regulations and Ordinances

In general, compliance means conforming to a law, regulation, ordinance or contractual obligation. A compliance system is an organization-wide tool that links legislative and management rules to organizational policies and processes. The objective of such a system is to promote a self sustaining level of operations that minimizes the losses caused to the organization through breaches of laws, regulations, ordinances and contractual obligations.

The Food Safety Unit is reviewed, monitored and accredited by the State of Michigan every three years to determine compliance with the state laws related to food inspection. The unit received high honors from the state in 2008 and is scheduled to be reviewed in August 2011 for the renewal of their accreditation.

Conclusion

The Food Safety Unit provided reasonable assurance that the unit is achieving its goals and objectives by compliance with required regulations through ongoing training, coaching and the establishment of monitoring practices.

The unit also uses periodic self-assessments as a cyclical process integrated into the Continuous Quality Assurance process. This process prevents food borne illness through monitoring, education and enforcement of licensed food service facilities.

Based on our review of the last accreditation audit report issued by the state, we have concluded that the Food Safety Unit is complying with the laws, regulations, policies and procedures, and ordinances of Wayne County.

IV. Financial Activity

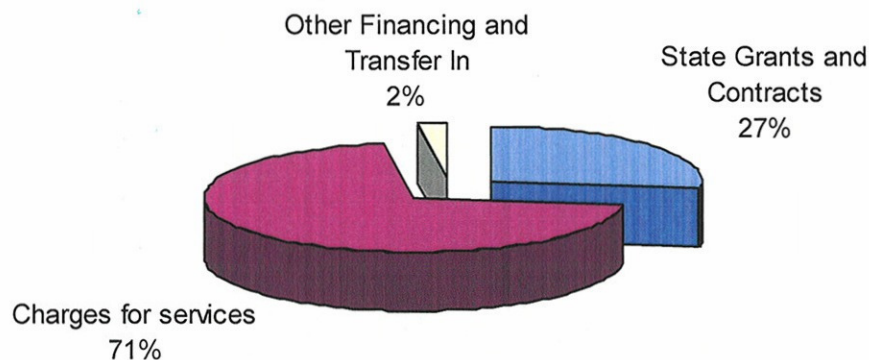
The objective of financial statements is to provide information about the financial position, performance and changes in the financial position of an organization or segment that is useful for a wide range of users and in making economic decisions. Financial statements and related information are intended to be understandable, relevant, reliable and comparable to prior periods. Reported assets, liabilities and equity is directly related to an organization's financial position; while receipts and expenditures are directly related to an organization's financial performance over a specific period of time.

Conclusion

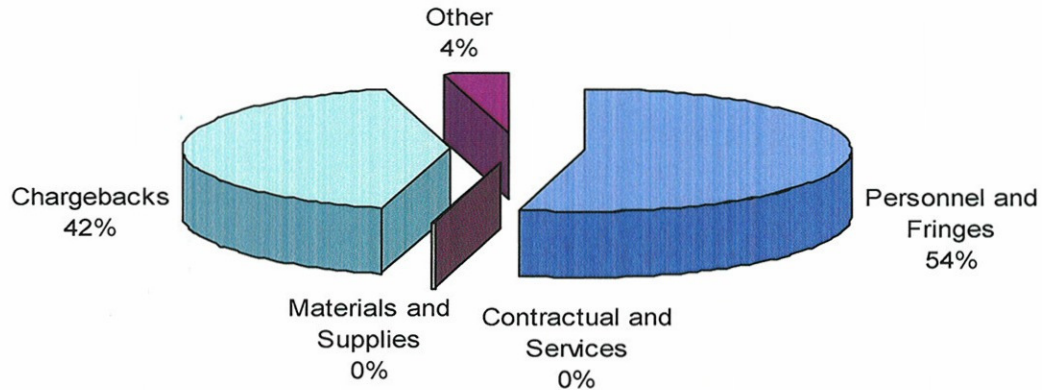
The Food Safety Unit is one of 32 programs included in the Public Health Grants received from the federal and state governments. We reviewed the unit's financial records for the period FY 2009 to January 31, 2011 and noted that the Food Safety Unit had deficits occurring in the last two fiscal years. Also, the deficit increased from \$876,178 in FY 2009 to \$1,446,696 in FY 2010, or 65 percent. Charges for overhead costs are extremely high which comprises 42 percent and 45 percent of total expenditures in FY 2009 and FY 2010, respectively.

Based on our preliminary review, the transfers in from the general fund were substantially less in FY 2009 and 2010. In addition, due to a lack of fee increases the full costs of providing various services are not being recovered by the Food Safety Unit.

REVENUES - BUDGETED



EXPENDITURES - BUDGETED



Based on our review, we have concluded that the Food Safety Program has reasonable financial management controls in place to meet overall grant requirements. However, we did note areas where we believe risk and control activities processes can be strengthened.

Area of Concern	Observation(s)
Budgetary Inaccuracy	<p>A significant portion of the revenue for the Food Inspection Program is generated from inspection fees charged to local businesses. For the past few years, the program has consistently over stated the amount of revenue to be generated from those fees. Specifically, in FY 2009, the program budgeted almost \$1.8 million but only received about \$838,000 in actual revenue. Again, in FY 2010, the program budgeted \$1.96 million but only received about \$801,000. Finally, in FY 2011, the program has budgeted almost \$2.6 million in fees charged, which based on prior activities, will again result in the unit being over budgeted.</p> <p>The Food Safety Unit stated the over projection of fees charged were due to the anticipation of fee increases being approved by the commission over the last three years. However, we noted that the ordinance related to the fee increases has just recently been included on the Ways and Means Committee's agenda for consideration.</p> <p><u>Impact</u></p> <p>As a result, overstating the amount of revenues the program is expected to generate could possibly cause the program to operate in a deficit. The budget should be based on actual available revenue and the amount expected to be received in any given year; accordingly, expenditures should be better aligned with the projected revenue.</p>

	Recommendation(s)
	<p><u>2011-02</u> We recommend Management review the budget on a regular basis to ensure the budget is realistic and based on actual available revenue.</p>
	<p>Management's Response:</p> <p>Management generally agrees in principle with this OAG recommendation. However, they did state that amending the scheduled user charge fee is only possible through a formal action of the Wayne County Commission. This is a multi-step process that involves many parties' efforts.</p> <p>Before submitting an amendment to the Commission, a cost analysis of each charge fee is required that includes the new recommended fees, which Management & Budget and Corporation Counsel will have to review.</p> <p>Once the Commission receives the documents, the Ways and Means Committee will review and discuss these documents at its meeting. Also, a public hearing will be required to be held on the proposed fee increases, and then the Commission can vote on the document.</p>
Area of Concern	Observation(s)
Update License Fees	<p>The most recent enrolled ordinance No. 2004-310 approved by the Wayne County Commission for Health Department Fees was in 2004. Moreover, it does not appear that the food inspection fees have been updated in over ten years. When compared to surrounding counties, Wayne County's food inspection fees are failing to keep up with inflation.</p>
	<p><u>Impact</u> Not updating the food inspection fees on a more regular basis, results in the county not covering the cost of services performed and loss of revenue which will ultimately need to be covered by the general fund. In addition, periodic increases in fees to the businesses would result in less of an impact to their operations as significant increases would.</p>
	<p>Recommendation(s)</p> <p><u>2011-03</u> We recommend program management review the license fee schedule on an annual basis and assess whether costs are being covered. Furthermore, when updates are necessary, management should submit the fee schedule to the commission for approval.</p>

	Management's Response:
	Management generally agrees in principle with this OAG recommendation.
Area of Concern	Observation(s)
Eliminating Cash Collection	<p>The food inspection program receives approximately \$91,000, or 10 percent, of the inspection fees paid in cash. However, cash is highly susceptible to theft and misappropriation. In fact, in 2007, during a follow-up review of a prior engagement, our office became aware of an instance in which cash was stolen from the food inspection program. It is estimated that the amount of the theft was between \$3,000 and \$5,000. In addition, there is no computerized method being used for accounting and recording of each transaction that is entered into the cash drawer. Everything is performed manually.</p> <p><u>Impact</u> Cash could be stolen or misappropriated.</p>
	Recommendation(s)
	<p><u>2011-04</u> The Food Safety Unit should consider purchasing a computerized cash register which provides basic functions which enhances accountability, or evaluate the cost benefit of eliminating cash as a method of payment and expand to other forms of payment. These methods could be debit cards, credit cards, etc.</p>
	<p>Management's Response:</p> <p>Management responded: "The department agrees with the recommendation of purchasing a computerized cash register. As continuous improvement of the food inspection program is the overall objective, purchasing a computerized cash register that enhances accountability and efficiency of the revenue intake process is a recommendation the department agrees with. Eliminating cash as a payment method is a recommendation the department does not agree with. As an office that serves the public we must meet the needs of the public that utilizes this office. Eliminating cash could result in approximately 350 restaurant owners being forced to find an alternative method of payment for their annual restaurant license fees. This could result in a significant number of restaurants being late in renewing their annual license and ultimately create additional administrative work for the food inspection program staff."</p>

Noteworthy Comments

- Received the highest honors for the 2008 Accreditation audit.
- Targeted to meet objectives for 2011 Accreditation.
- Exceeded MFR Benchmark on Customer Service satisfaction.
- Complied with the Food Code and Food Law through providing continuous training.
- Enhanced services by making credit/debit card payment option available to public.

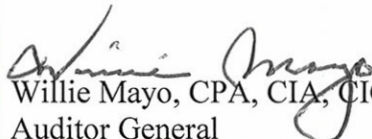
Conclusion

Overall conclusion - Based on our limited review, management appears to have identified key areas of risk within the division and established reasonable control activity to manage and mitigate such risk.

Corrective Action Plan (CAP) – A CAP will be requested approximately 30 days after this report is formally received and filed by the Wayne County Commission. If sufficient corrective action is not taken, a follow-up review may be necessary.

This report is intended solely for the information and use of the Food Safety Unit, Environmental Health Division, Wayne County Health Department, Department of Health and Human Services and the County Commission and should not be used for any other purpose. This restriction is not intended to limit distribution of the report which is a matter of public record.

Sincerely,


Willie Mayo, CPA, CIA, CICA
Auditor General