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October 4, 2012

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 Smoking Reduction Program, Environmental Health Section, Division of Public Health, Department of Health & Human Services. Our report is dated August 24, 2012; DAP No. 2011-57-854. 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 September 20, 2012 and formally received by the Wayne County Commission on October 4, 2012.

You will be pleased to know that officials and staff in the Department of Health & Human Services offered their full and complete cooperation during the review. If you have any questions, concerns, or desire to discuss the 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 purpose. Copies of all Office of Legislative Auditor General's final reports can be found on our website: <http://www.waynecounty.com/commission/lagreports.htm>


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Wayne County Executive





County of Wayne, Michigan
Office of Legislative Auditor General

Operational Assessment Review

**Smoking Reduction Program
Environmental Health Section
Division of Public Health
Department of Health and Human Services**

DAP No. 2011-57-854

August 24, 2012

Executive Summary

Type of Engagement, Scope, and Methodology

This is an operational assessment review to identify key risks to the Smoking Reduction Program and assess whether management has appropriate internal controls and processes in place to sufficiently manage or mitigate risks. The fieldwork was completed on August 24, 2012, and the scope of our work was for the period October 1, 2011 through April 30, 2012. The methodology used for this engagement was primarily limited to inquiry, review of documents, application of analytical procedures, and walkthroughs of key business processes.

Introduction

The Smoking Reduction Program is a unit within the Division of Public Health, Environmental Health Section of the Department of Health & Human Services. The unit is responsible for educating the public on tobacco reduction and prevention. The unit also provides education on how to quit tobacco along with ensuring compliance with the Michigan Smoke Free Air Law for public facilities, work places, and food service establishments.

Summary of Issues

We determined there is only one issue of concern and recommendation related to the Smoking Reduction Program. The one recommendation is considered a control deficiency which is classified as relatively low risk.

We discussed our observation and recommendation with management and it is important to note that they agreed with the recommendation.

Financial Activity

The chargeback/overhead costs charged to the Smoking Reduction Program are 50 percent of the total expenditures, which appear to be excessive.

Overall Views of Responsible Officials

Management agreed with our finding and recommendation as it relates to the allocation of overhead/chargeback costs for the program.

Noteworthy Accomplishments

Decrease in Number of Violations

The law went into effect May 1, 2010. Management informed us that since the inception of this law through April 2012, smoking violations have reduced from 32 to 5 for food establishments and reduced from 6 to 1 for non-food establishments. Management attributes the decline in violations to overall public awareness regarding the new law.

Conclusion

Overall conclusion - Management agreed with the one finding and recommendation and plans to take action to address the key areas of risk within the unit and implement reasonable control activity to manage and mitigate the 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.

DETAIL REPORT

Objectives, Scope, and Methodology

Objectives

The Office of Legislative Auditor General has performed an Operational Assessment Review of the **Smoking Reduction Program, Division of Public Health, Environmental Health Section, Department of Health and Human Services**. The purpose of our review was to identify key risks to this program and assess whether management has adequate 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 risks in the following areas:

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

Scope

The primary period of review for this engagement was October 1, 2010 through April 30, 2012 and the field work was primarily performed at the Environmental Health offices and completed on August 24, 2012

The procedures performed for this engagement were limited and were not sufficient to constitute an audit in accordance with Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States.

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 Environmental Health, Department of Health and Human Services and others, review of certain documents to corroborate assertions, review of financial activities and the application of analytical procedures, and a walk-through and limited testing of key strategic and business processes.

Purpose and Organizational Structure

The Smoking Reduction Program is a unit within the Division of Public Health, Environmental Health Section of the Department of Health & Human Services. The unit is responsible for educating the public on tobacco reduction and prevention. The unit also provides education on how to quit tobacco along with ensuring compliance with the Michigan Smoke Free Air Law for public facilities, work places, and food service establishments.

The Smoking Reduction Program annually receives a \$40,000 grant from the Michigan Department of Community Health (MDCH), Tobacco Control Program for the tobacco reduction and prevention program. The funding is to implement strategies in the Tobacco Free Michigan Five Year Strategic Plan for Tobacco Reduction and Prevention. Wayne County submits tri-annual reports to MDCH on the implementation of the plan.

Prior to the Smoke Free Air Law, The Wayne County Commission approved the revised Clean Indoor Air Regulation in 2005 which prohibited smoking in all covered workplaces both public and private except bars, restaurants, casinos, bingo halls, and some bowling alleys.

On December 10, 2009, the Michigan Legislature passed the Dr. Ron Davis Smoke-Free Air Law and the Governor signed the bill into law on December 18, 2009. The law went into effect on May 1, 2010. The law prohibits smoking in public places and food service establishments. The law covers public places, including but not limited to restaurants, bars, shopping malls, bowling alleys, concert halls, arenas, museums, mechanic shops, health facilities, nursing homes, education facilities, and child care centers. The law exempts the three Detroit casinos, cigar bars, specialty tobacco shops, home offices and motor vehicles, including commercial trucks. Michigan became the 38th state with such a law.

The Smoke Free Air Law places responsibility on establishments' owners or managers to ensure compliance with the law. The Wayne County Environmental Health Section's responsibilities are to investigate and follow up on any complaints filed for violation of the law. The County does not receive additional funds from the State for enforcement of the law.

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 the 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 inquiries, discussions and observations made, we have generally concluded that the control environment, organizational structure, philosophy, and ethical values of the Smoking Reduction Program/Environmental Health Section appear to be adequate to meet the program's goals and objectives. Personnel responsible for the program have extensive knowledge and experience and have worked within Environmental Health for a number of years. Staff meetings are held on a regular basis and training is conducted as needed.

II. Risk Management and Control Processes

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

The Michigan Department of Community Health only provides guidance on enforcement of the Smoke-Free law; it is up to the local units to develop policies and procedures. Wayne County's Smoking Reduction program does have policies and procedures in place. However, the enforcement

of the program is complaint driven and does not require periodic inspections.

While the risk still exists that there are complaints of the law in some establishments because of limited resources, unless a complaint is submitted, program officials will not be aware of the violation. The program does not have full time staff assigned to the program. The duties of addressing the complaints are assigned to two individuals that perform other duties for Environmental Health. In addition, to minimize the risk of non-compliance, when food inspectors are performing their food inspection review, they are aware of the requirements of the law and write violations.

Control Activities

Control activities are policies, procedures, practices, techniques, and mechanisms that help ensure that management directives are carried out. They help ensure that necessary actions are taken to address risks to achieve 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. It is action taken to minimize risk. The need for a control activity is established in the risk management process.

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 Smoking Reduction Program appears to have established necessary controls over key processes to mitigate risks. During our initial review of the program, only one individual was responsible for all aspects of the program including taking the complaints, investigating, enforcement, and reporting on the complaints. However, upon our subsequent review, the program was restructured where the same individual is no longer taking complaints, investigating, enforcing and reporting. The duties have been divided amongst the existing staff.

In addition, on a tri-annual basis, Environmental Health submits a work plan for 'Tobacco Prevention & Reduction' to the State of Michigan. The plan outlines the goals of the program along with the performance indicators toward compliance with the goals. This plan qualifies the local health department to receive the \$40,000 in annual state grant funding.

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 losses caused to the organization through breaches of laws, regulations, ordinances and contractual obligations.

Semi-annually, Environmental Health officials submit a survey to the State, which includes a total number of violations that occurred during that time period, including any citations and cease orders issued. Complaints have reduced from 32 to 5 violations for food establishments and reduced from 6 to 1 violation for non-food establishments since the law was first enacted to date (May 1, 2010 – April 30, 2012).

In addition, on a tri-annual basis, Environmental Health submits a work plan for ‘Tobacco Prevention & Reduction’ to the State of Michigan. The plan outlines the goals of the program along with the performance indicators toward compliance with the goals. This is required for the local health department to receive the \$40,000 in annual State grant funding.

According to program officials, Wayne County Inspectors have responded to approximately 1,000 smoking complaints since the law’s inception. However, less than 2 percent of the establishments in Wayne County have received a violation for failure to follow the law. They further attribute these statistics to show that the public welcomes the law and most establishments have adjusted to requiring patrons to go outside to smoke. In addition, according to reports from the Michigan Department of Community Health, the ban on smoking also serves to protect the establishment’s employee health.

Conclusion

The Smoking Reduction Program provided reasonable assurance that the program is complying with Smoke Free Law; no correspondence has been received noting non-compliance or late reporting. Semi-annual reporting and tri-annual work plans have been properly submitted to the Michigan Department of Community Health on a timely basis.

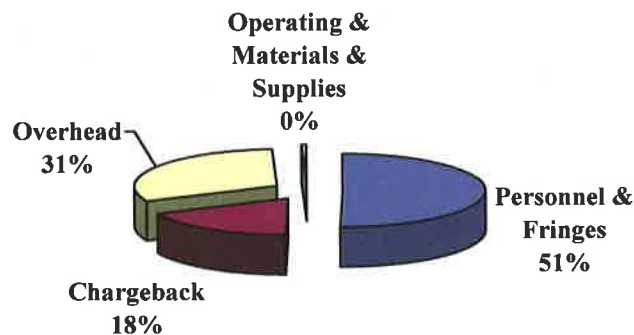
IV. Financial Activity

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.

Fiscal Year 2011

The Smoking Reduction Program financial activity is accounted for in business unit #60140 within the Health Fund, a special revenue fund. For FY 2011, State grants account for \$40,000, or 52 percent, of the revenue for the program with the general fund contributing \$35,706 or 46 percent. Charges, fees, and fines from the violations amount to \$1,900 or 2 percent of the total revenue. However, for FY 2011, total expenditures were \$114,887 with a deficit of \$36,681 for FY 2011. Of the total expenditures, salaries and fringe benefits represented \$57,714 or almost 50 percent while charge backs/overhead represented \$56,649 or almost 50 percent of the expenditures. Based on our analysis of the chargeback/overhead costs, \$20,868 and \$35,781 represented chargeback/overhead costs, respectively. The only remaining expenditures were just over \$500 for materials and supplies and other operating expenditures as shown in the following chart:

FY 2011 Actual Expenditures



Fiscal Year 2012

We did note that for FY 2012 the state grant was budgeted for \$80,000. According to management officials, the program was originally budgeted to receive the \$80,000, because the program was not going to receive any general fund support. However, according to management officials, a reconciliation budget adjustment was submitted to reduce the grant amount to \$40,000.

With the reduction in staffing to the program, expenditures for FY 2012 were reduced significantly. As of July 2012, total expenditures are projected at about \$65,000. In addition to the \$40,000 state grant, the program will require \$25,000 in general fund support.

Conclusion

Based on our review we concluded that the Smoking Reduction Program has reasonable financial management controls in place to meet the overall requirements of the program. However, budgets are required to be based on certified revenue projected to be received. In addition, the amount of charge backs/overhead is excessive as shown below.

Area of Concern	Condition
Chargebacks/ Overhead Costs Appear Excessive	<p>For FY 2011, the financial activity of total program expenditures consisted of the following two categories: salaries and fringe benefits – 50 percent and chargeback/overhead – 50 percent. The chargeback/overhead costs charged to the program appear excessive. Best Business Practices in the Governmental/Non-Profit environment dictates that administrative costs normally should range between 20-30 percent of total program expenditures.</p> <p>According to finance officials, each program within Environmental Health are allocated two types of overhead costs: Health Administrative overhead that is charged to all Public Health units and an Environmental Health overhead that is charged only to the Environmental Health units. The overhead costs are allocated to the various units using a percentage of total salaries and fringes.</p> <p><u>Impact</u></p> <p>Administrative expenses that exceed industry averages could be viewed as inequitable and lead to creating deficits in the Environmental Health Unit.</p>
	Recommendation
	<p><u>2011-01 – Control Deficiency</u></p> <p>Management and Budget should review the chargeback/overhead costs being allocated to the Department of Health and Human Services units to determine if it is reasonable and consistent with national averages of administrative costs to operate similar programs.</p>
	Management's Response:
	Management agreed with the recommendation.

Noteworthy Accomplishments

	<p>Management reported that from May 2010 through April 2012, smoking violations have reduced from 32 to 5 violations for food establishments and reduced from 6 to 1 violation for non-food establishments.</p>
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Conclusion

Overall conclusion - The Smoking Reduction Program within the Environmental Health Section appears to have a sufficient governance structure and risk management and controls in place to sufficiently manage the risk related to operations. Based on the limited work performed by the OAG, the program appears to be in compliance with the applicable laws, regulations and ordinances. In addition, the program has adequate controls in place over financial activities; however, we believe the allocation of overhead costs should be analyzed in greater detail by M&B to provide assurance that it is equitable and reasonable.

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 Smoking Reduction Program, Environmental Health Section, Division of Public Health, Department of Health and Human Services and the Wayne 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, CGAP, CICA
Auditor General

Appendix A

Control Deficiency (low risk)

A control deficiency exists when the internal control design or operation does not allow management or employees, in the normal course of performing their assigned functions, to prevent, detect or correct errors in assertions made by management on a timely basis. A deficiency in design exists when (1) a control necessary to meet the control objective is missing or (2) an existing control is not properly designed in that, even if the control operates as designed, the control objective is not met.

A deficiency in operation exists when a properly designed control does not operate as intended, or when the person(s) performing the control does not possess the necessary authority or qualifications to perform the control effectively.

Significant Deficiency (medium risk)

A matter that, in the auditor's judgment, represents either an opportunity for improvement or significant deficiency in the management's ability to operate a program or department in an effective and efficient manner. A significant deficiency in internal control, or combination of deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process or report data reliably in accordance with applicable criteria or framework such that there is more than a remote likelihood that a misstatement of the subject matter that is more than inconsequential will not be prevented or detected.

Material Weakness Deficiency (high risk)

A significant deficiency that could impair the ability of management to operate the department in an effective and efficient manner and/or affect the judgment of an interested person concerning the effectiveness and efficiency of the department. A significant or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of subject matter will not be prevented or detected.