

Audit Report

Berrien County Health Department WIC Program

October 1, 2004 – September 30, 2005



Office of Audit
Quality Assurance and Review Section
January 2008



JENNIFER M. GRANHOLM
GOVERNOR

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

JANET OLSZEWSKI
DIRECTOR

January 9, 2008

Michael A. Mortimore, Ed.M., MPH
Health Officer
Berrien County Health Department
769 Pipestone St., P.O. Box 706
Benton Harbor, Michigan 49023

Dear Mr. Mortimore:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Berrien County Health Department WIC Program for the period October 1, 2004 through September 30, 2005.

The final report contains the following: description of agency; funding methodology; purpose and objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH Grant Program Revenues and Expenditures; and corrective action plan. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit's response to those comments.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

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

cc: Alethia Carr, Director, WIC Division
Pam Myers, Acting Director, Office of Audit
David Figg, Audit Manager, Office of Audit

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology	1
Purpose and Objectives	1
Scope and Methodology	2
<u>Conclusions, Findings, and Recommendations</u>	
Internal Controls	2
Financial Reporting	
1. Understated Indirect Cost Rate and Cost Allocation	3
MDCH Share of Costs	4
Statement of MDCH Grant Program Revenues and Expenditures	5
Corrective Action Plan	6

DESCRIPTION OF AGENCY

The Berrien 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 Berrien County, and the administrative office is located in Benton Harbor, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Berrien County. The Health Department provides community health program services to the residents of Berrien County. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Tobacco Reduction, Children's Special Health Care Services, Medicaid Outreach, Family Planning, 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, 2004 to September 30, 2005. Our review procedures included the following:

- Reviewed the most recent Berrien County Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed payroll, indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed WIC equipment inventory.
- Reviewed WIC coupon inventory controls.

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 generally 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. However, we noted an exception with the indirect cost rate and cost allocation (Finding 1).

Finding

1. Understated Indirect Cost Rate and Cost Allocation

The Indirect Cost Rate used to allocate Agency Support indirect costs was understated as a result of not including the full amount of eligible County Central Service Cost.

Per 2 CFR Part 225 (formerly OMB Circular A-87), Attachment A, General Principles for Determining Allowable Costs, Section C. 3. - Allocable Costs - a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The County has a Central Service Cost Allocation Plan prepared each year to be used to determine eligible costs for each department of the County to claim as indirect costs chargeable to Federal Programs. The Health Department reported the same amount of \$47,500 each year for several years through FY 2005/2006, and budgeted the same amount for FY 2006/2007. The actual Central Service cost for the Health Department far exceeded that amount each year, and for base year 2006 the Health Department Central Service cost was \$401,515. The difference between reported and actual eligible Central Service Cost was not determined for each year. The plans are prepared based on the County's calendar year accounting records. Therefore the computation of eligible cost for a Health Department fiscal year ending September 30 requires adding one quarter of one county base year plus three quarters of the next county base year.

The potential effect on the Health Department indirect rate and indirect cost allocation to programs does not affect the WIC Program grant funding since the WIC funds were already fully spent. However, there may be other Health Department programs that could recover additional Federal grant funds if the additional eligible costs were reported. Also, it is important to recognize the total cost incurred in operating individual departments and programs.

Recommendation

We recommend that the Health Department include total eligible Central Service cost in the indirect cost rate and indirect cost allocation to all Health Department programs.

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 Program for fiscal year ended September 30, 2005, is \$468,360. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Berrien County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/04 - 9/30/05**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Base Grant	\$450,574	\$450,574 1	\$0	\$450,574
MDCH Project Fresh	\$60,000	\$17,786	\$0	\$17,786
Local and Other Funds	\$69,561	\$93,582	\$0	\$93,582
TOTAL REVENUES	\$580,135	\$561,942	\$0	\$561,942
EXPENDITURES:				
Salary and Wages	\$246,191	\$244,195	\$0	\$244,195
Fringe Benefits	\$91,241	\$89,784	\$0	\$89,784
Equipment	\$0	\$0	\$0	\$0
Supplies	\$7,630	\$18,630	\$0	\$18,630
Travel	\$2,400	\$3,989	\$0	\$3,989
Communications	\$300	\$15	\$0	\$15
Space Cost	\$51,065	\$50,098	\$0	\$50,098
Other Expense	\$60,000	\$36,928	\$0	\$36,928
Indirect Cost	\$84,358	\$83,496 2	\$0	\$83,496
Personal Prev. Health Svcs.	\$36,950	\$34,807	\$0	\$34,807
TOTAL EXPENDITURES	\$580,135	\$561,942	\$0	\$561,942

1 Actual MDCH payments, provided on a performance reimbursement basis.

2 Indirect Cost was under-reported, however there was no effect on WIC funds.
See Finding 1.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Understated Indirect Cost Rate and Cost Allocation

The Indirect Cost Rate used to allocate Agency Support indirect costs was understated as a result of not including the full amount of eligible County Central Service Cost.

Recommendation: Include the total eligible Central Service cost in the indirect rate and indirect cost allocation to all Health Department programs.

Comments: The Health Department agrees with this finding.

Corrective Action: The Health Department is currently budgeting and reporting the full amount of eligible County Central Service Cost in the indirect rate and indirect cost allocation.

Anticipated

Completion Date: Immediately.

MDCH Response: No Comments.