

Audit Report

Berrien County Health Department WIC Program

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review Section
August 2012



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
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OLGA DAZZO
DIRECTOR

August 3, 2012

Michael A. Mortimore, EdM, MPH, Health Officer
Berrien County Health Department
769 Pipestone Road
P.O. Box 706
Benton Harbor, Michigan 49023-0706

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, 2010 through September 30, 2011.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statement 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. **Please note that the corrective action plans include additional comments from the Office of Audit based on a review of the Health Department's response to the Preliminary Analysis.**

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

Enclosure

cc: Stan Bien, Director, WIC Division
Pam Myers, Director, Office of Audit
Michael Gribbin, Auditor, Office of Audit

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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, 2010 to September 30, 2011. 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.
- 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.
- Reviewed the Health Department equipment inventory record system.

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 not effective in establishing and implementing effective internal controls to ensure accurate financial reporting related to the WIC Program. Details are provided in Findings #1 - #5 addressed under the Financial Reporting Section below.

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 did not report 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 regarding the FSR not matching the general ledger (Finding 1); the improper allocation of a renovation project (Finding 2); unallowable expenditures (Finding 3); various indirect cost allocations not being current or adequately supported (Finding 4); and an understated agency support cost pool (Finding 5). Several of these items were identified in previous audits without adequate corrective action by the Health Department.

Finding

1. FSR and Trial Balance Do Not Match General Ledger (Repeat)

The Health Department's expenditures per the FSR and Trial Balance do not agree with the general ledger.

The expenditures on the general ledger far exceed those amounts reported on the trial balance and the FSR. The variance appears to be due to the fact that the Health Department operates on a cash basis instead of accrual basis. The General Ledger includes expenses that do not apply to the current fiscal year. The Health Department does not keep track of the actual date the expense was incurred on the general ledger so it is not possible to determine which expenditures on the general ledger belong to which fiscal year for FSR reporting. Additionally, as noted in the County of Berrien's 2010 Single Audit Report, reconciliations between the general ledger detail and reported FSR amounts are not performed periodically to ensure proper reporting of Federal programs.

The Health Department's contract with MDCH requires that FSRs must report total actual program expenditures. OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Section C.1. states that for costs to be allowable under Federal awards, costs must meet the following general criteria:

- g. Be determined in accordance with generally accepted accounting principles.*
- j. Be adequately documented.*

The FSR reported expenditures are not adequately documented since they cannot be reconciled to general ledger amounts. Additionally, the FSR reported expenditures may not be determined in accordance with generally accepted accounting principles due to the variances between reported expenditures and general ledger expenditures.

The MDCH audit of the Family Planning Program for fiscal year end 2010 (issued in July 2011) cited similar problems with FSR reporting. In response, the Health Department stated that they developed and implemented policies and procedures to ensure that FSRs are correctly stated with allowable expenditures and supporting documentation. However, it appears the policies and procedures were not sufficient to resolve the problems since they remained with the subsequent FSR filing.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that the expenditures on the FSR and Trial Balance reconcile to the expenditures on the general ledger.

Finding

2. Improper Allocation of Renovation Project

The Health Department improperly expensed a \$15,600 clinic renovation project entirely to WIC rather than capitalizing and depreciating the capital expenditure and allocating the expense to all benefitting programs as required by OMB Circular A-87.

According to OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, General Principles for Determining Allowable Costs, Sections C.1.b. and C.3., *“To be allowable under Federal awards, costs must meet the following general criteria:...Be allocable”* and *“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.”*

According to OMB Circular A-87, Appendix B, Section 15.b.(3), *“Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost, except with the prior approval of the awarding agency.”* OMB Circular A-87, Appendix B, Section 11.a. provides for the reporting of depreciation as an allowable expenditure as follows, *“Depreciation and use allowance are means of allocating the cost of fixed assets to periods benefiting from asset use.”*

The clinic in the Niles facility underwent renovations during 2011. According to the Health Department’s website, WIC and 8 other programs use this clinic. However, the cost of these renovations, \$15,600, was entirely expensed to WIC. The cost of this renovation project should have been charged to all of the programs using that clinic. Also, the Health Department did not get authorization from MDCH to expense this renovation project. The only capital project with MDCH authorization was for new flooring, which was budgeted at \$5,000 and cost \$4,820. The flooring project was separate from the \$15,600 renovation project. We calculated that only \$87 in depreciation should have been expensed to WIC using 20 years as the useful life and spreading the expense to all benefitting programs. The variance between the amount expensed and the allowable depreciation of \$15,513 is shown as an adjustment on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure capital projects are allocated to all benefitting programs, and properly capitalized and depreciated if not approved as a direct expenditure by MDCH.

Finding

3. Unallowable Walmart Gift Cards

The Health Department expensed \$2,500 as a supplies expense for the purchase of Walmart gift cards, but only \$832 was used on supplies.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Section C.1.a. states that in order for a cost to be allowed it must “*Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*” When determining reasonableness, consideration is given to whether the cost is of a type generally recognized as ordinary and necessary for the operation of the governmental unit.

The unused balance on the WIC gift cards (\$1,668) has no benefit to the WIC Program and is an unallowed expense. This is shown as an adjustment on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department implement policies and procedures to prohibit the purchase and use of gift cards for operational costs, and to ensure that only allowable expenditures are reported on the FSR.

Finding

4. Agency Support, Space Cost, and Nursing Supervision Allocations Not Current (Repeat)

The Health Department used the 2006 indirect rate for the agency support allocation and a budgeted rate for the nursing supervision allocation, and could not support the space cost allocation amount.

The Health Department used an indirect rate of 42% for the agency support allocation (which includes space cost). This rate was computed in 2006 and has been used in every fiscal year since. A portion of the allocation is reported as space cost, but the Health Department was unable to explain how the portion was determined. For the nursing supervision allocation, the Health Department allocates 24% of total expenses to WIC. This percent was determined in a prior year and continues to be used without any reasonable explanation.

According to OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Sections C.1.b. and C.1.j., in order for a cost to be allowable it must be allocable in accordance with relative benefits received and adequately documented. Allocation rates must be updated annually based on actual expenditures for the rates to accurately represent an allocation based on relative benefits received. Furthermore, documentation must be retained to support the allocations and reported expenditures.

The agency support allocation was determined to be understated by \$3,574, and an adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The nursing supervision allocation generally appeared reasonable and no financial adjustment was made.

The MDCH audit of the Family Planning Program for fiscal year end 2010 (issued in July 2011) cited the same problems with cost allocations and space cost reporting. In response, the Health Department stated that they developed a policy to calculate an indirect cost rate on

an annual basis after the end of the year to use for cost reporting. However, it appears the policy was not implemented since the problems remained with the subsequent FSR filing.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that the indirect rate calculations are based on current year expenditures.

Finding

5. Understated Agency Support Cost Pool (Repeat)

The Health Department does not include the full amount of eligible County Central Service Costs in their agency support cost pool.

According to OMB Circular A-87 (located at 2 CFR Part 225), 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 has expensed the same amount of \$47,500 each year for several years through FY 2010/2011. The actual Central Service Cost for the Health Department appears to have far exceeded that amount each year, because our prior audit showed \$401,515 in Central Service Cost allocable to the Health Department for 2006. The difference between reported and actual eligible Central Service Cost was not determined for each year. No County Central Cost Allocation Plan was provided for the year; therefore, there is no method to determine the exact amount that should have been reported for the Central Service Cost.

The MDCH audit of the WIC Program for fiscal year end 2005 (issued in January 2008) cited the same issue. In response, the Health Department stated that they were budgeting and reporting the full amount of eligible County Central Service Cost in the indirect rate and indirect cost allocation. However, it appears the stated corrective action was not taken.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure total eligible County Central Service Costs are included in the agency support cost pool for calculating the indirect cost rate and allocations 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, 2011, is \$706,922 based on the audit adjustments shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The Health Department was paid \$708,398 resulting in a balance due from the Health Department of \$1,476. However, MDCH is recognizing that the Health Department likely far understated their eligible agency support costs (Finding #5) and is waiving the balance due.

**Berrien County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Base Grant	\$708,398	\$679,243	\$27,679	\$706,922 ¹
Fees & Collections – 3 rd Party	\$1,200	\$1,200	\$0	\$1,200
Federal or State (Non MDCH)	\$2,500	\$2,500	\$0	\$2,500
Local Funding	\$23,215	\$0	\$0	\$0
TOTAL REVENUES	\$735,313	\$682,943	\$27,679	\$710,622
EXPENDITURES:				
Salary and Wages	\$273,050	\$273,044	\$0	\$273,044
Fringe Benefits	\$157,659	\$147,189	\$0	\$147,189
Equipment	\$0	\$0	\$0	\$0
Supplies	\$47,190	\$11,190	\$20,648	\$31,838
<i>Under Reported Amount (E- Grams) \$37,829</i>			2	
<i>Improper Allocation (\$15,513)</i>			3	
<i>Unallowable Expense (\$1,668)</i>			4	
Travel	\$3,400	\$3,400	\$2,071 2	\$5,471
Communications	\$1,500	\$1,500	\$293 2	\$1,793
Space Cost	\$45,225	\$44,383	\$0	\$44,383
Other Expense	\$18,639	\$16,362	\$1,093 2	\$17,455
Indirect Cost	\$135,674	\$132,373	\$3,574 5	\$135,947
Other Cost Distributions	\$52,976	\$53,502	\$0	\$53,502
TOTAL EXPENDITURES	\$735,313	\$682,943	\$27,679	\$710,622

- 1** Health Department paid \$708,398.
- 2** Due to system limitations of E-Grams.
- 3** Improper allocation of renovation project to WIC (Finding 2).
- 4** Unallowable Walmart gift cards (Finding 3).
- 5** Understated Indirect/Space allocation (Finding 4).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **FSR and Trial Balance Do Not Match General Ledger (Repeat)**

The Health Department's expenditures per the FSR and Trial Balance do not agree with the general ledger.

Recommendation: Implement policies and procedures to ensure that the expenditures on the FSR and Trial Balance reconcile to the expenditures on the general ledger.

Comments: The Health Department agrees with the finding. This error was due to a misstatement of indirect expenditures in the general ledger.

Corrective Action: The Health Department will record indirect cost on a monthly basis, with quarterly refinements going forward. The Health Department will use the internal reports produced from the General Ledger reports to produce the FSRs.

Anticipated

Completion Date: September 30, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Improper Allocation of Renovation Project

The Health Department improperly expensed a \$15,600 clinic renovation project entirely to WIC rather than capitalizing and depreciating the capital expenditure and allocating the expense to all benefitting programs as required by OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure capital projects are allocated to all benefitting programs, and properly capitalized and depreciated if not approved as a direct expenditure by MDCH.

Comments: The Health Department did not finish the process of getting the needed approval and thought that it was within its allowed variance.

Corrective Action: The Health Department will obtain MDCH approval for capital projects.

Anticipated

Completion Date: September 30, 2012

MDCH Response: Budget variance approval and direct expense of capital asset purchase approval are two separate types of approval. MDCH approval is necessary to direct expense (expense a capital asset purchase entirely in the year of purchase rather than capitalize and depreciate) a capital asset purchase regardless of budget parameters.

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Unallowable Walmart Gift Cards

The Health Department expensed \$2,500 as a supplies expense for the purchase of Walmart gift cards, but only \$832 was used on supplies.

Recommendation: Implement policies and procedures to prohibit the purchase and use of gift cards for operational costs, and to ensure that only allowable expenditures are reported on the FSR.

Comments: The Health Department agrees with this finding.

Corrective Action: The Health Department will continue to use gift cards as incentives for clients. However, the Health Department will no longer use gift cards to pay for operational costs. Also, gift cards will not be held over into the next fiscal year.

Anticipated

Completion Date: September 30, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: Agency Support, Space Cost, and Nursing Supervision Allocations Not Current (Repeat)

The Health Department used the 2006 indirect rate for the agency support allocation and a budgeted rate for the nursing supervision allocation, and could not support the space cost allocation amount.

Recommendation: Implement policies and procedures to ensure that the indirect rate calculations are based on current year expenditures.

Comments: The Health Department agrees with this finding.

Corrective Action: The Health Department will calculate a monthly amount for agency support and space using the prior year indirect rate. A process will be implemented to calculate the monthly nursing supervision expense based on salaries & fringes.

Anticipated

Completion Date: September 30, 2012

MDCH Response: The prior year indirect rate can be applied to current year expenditures on an interim basis. However, at year end, the total indirect expense must be based on actual expenses from the current year only and an adjustment to actual must be made.

Corrective Action Plan

Finding Number: 5

Page Reference: 6

Finding: Understated Agency Support Cost Pool (Repeat)

The Health Department does not include the full amount of eligible County Central Service Costs in their agency support cost pool.

Recommendation: Implement policies and procedures to ensure total eligible County Central Service Costs are included in the agency support cost pool for calculating the indirect cost rate and allocations to all Health Department programs.

Comment: This will result in an increase in the indirect cost that the programs are going to have to pay for administration.

Corrective Action: The Health Department will work with the county financial staff on the financial effects of this and implement the appropriate changes.

Anticipated

Completion Date: December 31, 2012

MDCH Response: The Health Department is required to report actual costs on the FSR regardless of the amount.