

# Audit Report

## **Branch-Hillsdale-St. Joseph Community Health Agency WIC Program**

October 1, 2010 – September 30, 2011



Office of Audit  
Quality Assurance and Review Section  
June 2012



RICK SNYDER  
GOVERNOR

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

OLGA DAZZO  
DIRECTOR

June 27, 2012

Stephen R. Todd, RS, MPA, Health Officer  
Branch-Hillsdale-St. Joseph Community Health Agency  
570 Marshall Road  
Coldwater, Michigan 49036

Dear Mr. Todd:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the 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, and the Office of Audit's response to those comments where necessary.

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 Branch-Hillsdale-St. Joseph Community Health Agency (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Branch County, and the administrative office is located in Coldwater, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of the counties of Branch, Hillsdale, and St. Joseph. The Health Department provides community health program services to the residents of these three counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, Infectious Disease Control, Sexually Transmitted Disease Control, Area Agency on Aging, Children's Special Health Care Services (CSHCS), Diabetes Outreach Network, Emergency Preparedness/Pandemic Flu, Tobacco Control, Medicaid Outreach, 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 Health Department 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 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.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed WIC equipment inventory.

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. We noted one exception regarding the lack of personnel activity reports (Finding 1).

#### **Finding**

##### **1. Lack of Personnel Activity Reports**

The Health Department does not use personnel activity reports when allocating time for employees who work on multiple programs as required by OMB Circular A-87 (located at 2 CFR Part 225).

OMB Circular A-87, 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." Also, OMB Circular A-87, Appendix B, Section 8.h.(5)(e) states, "Budget estimates or other distribution

percentages determined before the services are performed do not qualify as support for charges to federal awards but may be used for interim accounting purposes.”

The Health Department uses budgeted FTE’s to allocate salaries & fringes for employees who work on multiple programs. The estimates are updated throughout the year by the Medical Director. The Medical Director has direct knowledge of the work performed by the employees. However, the employees are not required to complete personnel activity reports and therefore there is no documentation of activity performed by the employee during the pay period.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that the Health Department employees’ activity is properly documented and actual salary costs are properly allocated in accordance with OMB Circular A-87.

## **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 its WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted two financial reporting exceptions regarding the calculation of indirect expenses (Finding 2) and the computation of space costs (Finding 3).

### **Finding**

#### **2. Indirect Cost Calculations Based on Budgeted Salaries and Fringes Instead of Actual**

The Health Department allocates Administrative Overhead and Preventative Services Overhead based on budgeted salaries and fringes rather than actual.

Per the MDCH Grant Agreement, Part II, Section IV, D. Financial Status Report Submission, “FSR’s must report total actual program expenditures regardless of the source of funds.”

Per OMB Circular A-87, Appendix 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.”

When computing the Overhead Rates for Administration and Preventative Services, the Health Department calculates the overhead rates by using the budgeted salaries and fringes and applies those rates to the actual salaries and fringes of each program. The calculation of

the indirect rates must be based on actual salaries and fringes to ensure actual costs in accordance with relative benefits received are reported. We recalculated the indirect costs for Administration & Preventative Services. The resulting variance for the Administration Overhead of \$1,231 is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures, but will not have a financial impact on WIC due to the amount of other adjustments and the amount of local funding. The variance for the Preventative Services calculation was deemed immaterial and no adjustment was made.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that indirect costs at the end of the fiscal year are calculated based on actual salaries and fringes rather than budgeted salaries and fringes.

### **Finding**

#### **3. Lack of Support for the Year End Space Costs**

The Health Department uses budget estimates when expensing space costs throughout the year and adjusts to actual at year end, but the Health Department could not adequately support this adjustment.

Per the MDCH Grant Agreement, Part II, Section IV, D. Financial Status Report Submission, “FSR’s must report total actual program expenditures regardless of the source of funds.”

Also, OMB Circular A-87, Appendix A, Section C.1.j, states that for costs to be allowable they must “be properly documented.”

At the end of the fiscal year, the Health Department made an adjustment to space costs, which they cannot adequately support. We recalculated the year end space costs for Administration, WIC, and WIC Breastfeeding. We calculated the following variances between reported and actual costs: Administration (\$37,436), WIC (\$3,832), and WIC Breastfeeding (\$671). Adjusting space cost to actual has no impact on MDCH funding due to other adjustments and local funding. For Administration, \$123,507 in Local Appropriations was offset against expenses before they were allocated to the applicable programs. The Local Appropriations did not need to be offset against expenses for the allocation. Therefore, the Local Appropriations amount will offset the variance in space cost.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that the Space Costs are properly documented and represent actual costs.

## **MDCH SHARE OF COSTS AND BALANCE DUE**

**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 \$923,544. The MDCH obligation under the WIC Breastfeeding program for fiscal year ended September 30, 2011 is \$86,201. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC or WIC Breastfeeding grant program funding.

**Branch - Hillsdale - St. Joseph District Health Department  
WIC Supplemental Food Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/10 - 9/30/11**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$923,544	\$923,544 <sup>1</sup>	\$0	\$923,544
Local and Other Funds	\$18,888	\$19,106	(\$618)	\$18,488
Fees and Collections – 1 <sup>st</sup> and 2 <sup>nd</sup> Party	\$500	\$267	\$0	\$267
Fees and Collections – 3 <sup>rd</sup> Party	\$5,000	\$5,015	\$0	\$5,015
<b>TOTAL REVENUES</b>	\$947,932	\$947,932	(\$618)	\$947,314
<b>EXPENDITURES:</b>				
Salary and Wages	\$391,774	\$401,959	\$0	\$401,959
Fringe Benefits	\$173,931	\$171,581	\$0	\$171,581
Equipment	\$46,000	\$46,000	\$4,869 <sup>2</sup>	\$50,869
Supplies & Materials	\$49,982	\$56,907	(\$4,869) <sup>2</sup>	\$52,038
Travel	\$11,000	\$11,039	\$0	\$11,039
Communications	\$3,800	\$2,852	\$0	\$2,852
Space Cost	\$34,012	\$32,302	(\$3,832) <sup>4</sup>	\$28,470
Other Expense	\$42,295	\$38,518	\$0	\$38,518
Indirect Cost	\$102,110	\$100,381		\$103,595
<i>Under Reported Amount (E-Grams)</i>			\$4,445 <sup>2</sup>	
<i>Over Reported Amount (Miscalculation)</i>			(\$1,231) <sup>3</sup>	
Prevention Services Admin.	\$93,028	\$86,393	\$0	\$86,393
<b>TOTAL EXPENDITURES</b>	\$947,932	\$947,932	(\$618)	\$947,314

- <sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.
- <sup>2</sup> Variance due to system limitation in E-Grams
- <sup>3</sup> Overstated Indirect Expense due to miscalculation (Finding 2)
- <sup>4</sup> Overstated Space Cost Expense (Finding 3)

**Branch - Hillsdale - St. Joseph District Health Department  
WIC Breastfeeding Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/10 - 9/30/11**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$86,201	\$86,201 <sup>1</sup>	\$0	\$86,201
Local and Other Funds	\$7,175	\$3,509	(\$671)	\$2,838
<b>TOTAL REVENUES</b>	<b>\$93,376</b>	<b>\$89,710</b>	<b>(\$671)</b>	<b>\$89,039</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$48,832	\$49,203	\$0	\$49,203
Fringe Benefits	\$8,400	\$8,309	\$0	\$8,309
Equipment	\$0	\$0	\$0	\$0
Supplies & Materials	\$4,400	\$3,050	\$0	\$3,050
Travel	\$2,500	\$1,880	\$0	\$1,880
Communications	\$50	\$20	\$0	\$20
Space Cost	\$3,519	\$3,328	(\$671) <sup>2</sup>	\$2,657
Other Expense	\$4,000	\$2,841	\$0	\$2,841
Indirect Cost	\$10,330	\$10,548	\$0	\$10,548
Nursing Administration	\$11,345	\$10,531	\$0	\$10,531
<b>TOTAL EXPENDITURES</b>	<b>\$93,376</b>	<b>\$89,710</b>	<b>(\$671)</b>	<b>\$89,039</b>

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.

<sup>2</sup> Overstated Space Cost Expense (Finding 3).

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** **Lack of Personnel Activity Reports**

The Health Department does not use personnel activity reports when allocating time for employees who work on multiple programs as required by OMB Circular A-87 (located at 2 CFR Part 225).

**Recommendation:** Implement policies and procedures to ensure that the Health Department employees' activity is properly documented and actual salary costs are properly allocated in accordance with OMB Circular A-87.

**Health Department  
Comments:** Agrees with finding

**Corrective Action:** The Health Department will implement staff activity reporting on all employee timesheets.

**Anticipated  
Completion Date:** F.Y. 2011/2012.

**MDCH Response:** None.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Indirect Cost Calculations Based on Budgeted Salaries and Fringes Instead of Actual

The Health Department allocates Administration Overhead and Preventative Services Overhead based on budgeted salaries and fringes rather than actual.

**Recommendation:** Implement policies and procedures to ensure that indirect costs at the end of the fiscal year are calculated based on actual salaries and fringes rather than budgeted salaries and fringes.

### Health Department

**Comments:** The Indirect Rate was established based on budget and was applied to actual expenditures.

**Corrective Action:** The Indirect Rate will be recalculated at the end of the year to ensure actual reporting.

### Anticipated

**Completion Date:** F.Y. 2011/2012

**MDCH Response:** None.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Lack of Support for the Year End Space Costs

The Health Department uses budget estimates when expensing space costs throughout the year and adjusts to actual at year end, but the Health Department could not adequately support this adjustment.

**Recommendation:** Implement policies and procedures to ensure that the Space Costs are properly documented and represent actual costs.

**Health Department  
Comments:** Agrees with finding.

**Corrective Action:** The Health Department will spread space costs based on actual expenditures.

**Anticipated  
Completion Date:** F.Y. 2011/2012

**MDCH Response:** None