

Audit Report

Downriver Community Services
WIC, WIC Breastfeeding, and Family Planning

October 1, 2013 – September 30, 2014



Office of Audit
Quality Assurance and Review
June 2015



STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

NICK LYON
DIRECTOR

June 9, 2015

Cynthia Roush, CEO
Downriver Community Services
58144 Gratiot Avenue
New Haven, Michigan 48048

Dear Ms. Roush:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Downriver Community Services WIC, WIC Breastfeeding and Family Planning Programs for the period October 1, 2013 through September 30, 2014.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of 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,

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

Enclosure

cc: Stan Bien, Director, WIC Division
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Deanna Charest, Manager, Reproductive and Preconception Health Unit
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DESCRIPTION OF AGENCY

The Downriver Community Services (Agency) is organized as a non-profit agency under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Agency's administrative office is located in New Haven, Michigan. The Agency operates under the legal supervision and control of its Board of Directors. The Agency provides community health program services to the residents of Macomb and St. Clair counties.

FUNDING METHODOLOGY

The Agency services are funded from fees and collections, grant programs, which consist of federal and state funds, and other sources. The Michigan Department of Community Health (MDCH) provided the Agency with grant funding monthly based on Financial Status Reports (FSRs), in accordance with the terms and conditions of each grant agreement and budget.

The Family Planning Program was funded by MDCH grant funds, first and third party fees and collections, and other revenue. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog number 93.217, and is 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 cost (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

The WIC Programs were funded by MDCH grant funds. Grant funding from MDCH for the WIC Programs is federal funding under federal catalog number 10.557.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Programs and Family Planning Program internal controls and financial reporting, and to determine the MDCH shares of WIC Programs and Family Planning Program costs. The following were the specific objectives of the audit:

1. To assess the Agency's effectiveness in establishing and implementing internal controls over the WIC Programs and Family Planning Program.
2. To assess the Agency's effectiveness in reporting their WIC Programs and Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH shares of cost for the WIC Programs and Family Planning Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal period October 1, 2013 to September 30, 2014. We performed our review procedures in March 2015. Our review procedures included the following:

- Reviewed the most recent Agency Single Audit report for any WIC Programs and Family Planning Program concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the WIC Programs and Family Planning Program Financial Status Reports (FSRs) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance and adherence to policy and approval procedures.
- Reviewed WIC equipment inventory and general Agency equipment inventory records.

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 Agency's effectiveness in establishing and implementing internal controls over the WIC Programs and Family Planning Program.

Conclusion: The Agency was not effective in establishing and implementing internal controls over financial reporting for the WIC Programs and Family Planning Program. We noted numerous financial reporting exceptions that are addressed in the Financial Reporting Section of this report.

FINANCIAL REPORTING

Objective 2: To assess the Agency's effectiveness in reporting their WIC Programs and Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Agency was not effective in reporting their WIC Programs and Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. We found numerous exceptions related to FSR reporting and cost allocations (Finding 1), exceptions related to payroll distributions (Finding 2), and an inappropriate expenditure (Finding 3).

Finding

1. Errors in Cost Allocations and FSR Reporting

The Agency failed to report adjustments recorded in the General Ledger on the FSRs; and made errors when reporting depreciation, interest and wage allocations.

The Agreement, Part II, Section IV. C. states that FSRs must reflect total actual program expenditures regardless of the source of funds. OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A. 1. defines the total cost of an award as the sum of allowable direct and allocable indirect costs. Section A. 2. states for costs to be allowable they must:

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

Section A. 4. states:

A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.

The Agency made the following errors when preparing the FSRs and allocating costs:

- An adjustment was posted to the General Ledger on May 31, 2014, to adjust wages and fringes for the WIC and Family Planning Programs based on time and effort studies, but the FSRs were never amended to include this change.
- An adjustment was posted to the General Ledger on May 31, 2014, to adjust accrued benefits for the WIC and Family Planning Programs, but the FSRs were never amended to include this change.
- A reclassification of expenses from Other Expense to Salary and Wages Expense on the General Ledger for the Family Planning Program was made, but the FSR was never amended to include this change.
- Depreciation charges were based on budget and when adjusting to actual, the adjustment for the WIC Program was charged to the wrong program.
- The interest expense allocation was based on an incorrect calculation of total interest and an incorrect square footage percentage for the WIC Program.
- The allocation of cleaning personnel payroll was based on an incorrect square footage percentage for the WIC Program.

Adjustments are included on the attached Statements of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency implement review procedures to ensure accurate cost allocations occur and all appropriate expenditures are reported on the FSRs.

Finding

2. Payroll Distributions Not Adequately Supported and Not Accurately Completed

The Agency does not require all staff members to complete personnel activity reports, and did not distribute payroll costs to the WIC Program for an employee that spent 100% of their time working in the WIC Program from March 2014 through September 2014 according to personnel activity reports.

An employee transferred and began working in the WIC Program in March 2014 according to personnel activity reports, but the payroll costs were not properly distributed to the WIC Program. This resulted in the WIC Program wages and fringes being understated by \$15,375 and \$1,596, respectively. Additionally, the WIC Program supervisor worked 100% of her time in the WIC Program, but only completed a personnel activity report when she took personal leave.

OMB Circular A-122 (located at 2 CFR 230), Appendix B, Section 8.m. states:

- (1) Charges to awards for salaries and wages, whether treated as direct costs or indirect costs, will be based on documented payrolls approved by a responsible official(s) of the organization. The distribution of salaries and wages to awards must be supported by personnel activity reports, as prescribed in subparagraph 8.m. (2) of this appendix, except when a substitute system has been approved in writing by the cognizant agency.*
- (2) Reports reflecting the distribution of activity of each employee must be maintained for all staff members (professionals and nonprofessionals) whose compensation is charged, in whole or in part, directly to awards.*

Adjustments are included on the attached Statement of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency adopt policies and procedures for the distribution of payroll costs to comply with Federal cost principles, and ensure all payroll distributions are accurately completed. We advise the Agency to consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing procedures.

Finding

3. Unallowable Gift Card Purchased for WIC Retiree

The Agency purchased a \$100 gift in April 2014 for a WIC employee who retired and charged the expenditure to the WIC Program.

OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A. General Principles, states:

2. *Factors affecting allowability of costs. To be allowable under an award, costs must meet the following general criteria:*
 - a. *Be reasonable for the performance of the award and be allocable thereto under these principles.*
 - b. *Conform to any limitations or exclusions set forth in these principles or in the award as to types or amount of cost item.*
 - c. *Be consistent with policies and procedures that apply uniformly to both federally-funded and other activities of the organization.*

Gifts for retirees are not an allowable nor allocable cost under the terms of the award and Federal cost principles.

An adjustment is included on the Statement of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency discontinue the practice of reporting gifts for retirees as a WIC Program expenditure as this type of expenditure is not allowable nor allocable under the award and Federal cost principles.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the WIC Programs and Family Planning Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

Conclusion: The MDCH obligations under the WIC, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2014 are \$502,175; \$15,566; and \$122,053, respectively. The audit identified an additional \$2,631 in allowable costs for the WIC Program, and the Agency had room in the MDCH budget for the additional costs. The Agency needs to pursue amending the WIC Program FSR. However, the grant period may be closed, so the Agency may not be able to obtain additional funds at this time.

**Downriver Community Services
WIC Program
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|-----------|------------------------|------------------------|-----------|
| REVENUES: | | | | |
| MDCH Grant | \$520,331 | \$499,544 ¹ | \$2,631 | \$502,175 |
| Local Funds Other | \$0 | \$0 | \$0 | \$0 |
| TOTAL REVENUES | \$520,331 | \$499,544 | \$2,631 | \$502,175 |
| EXPENDITURES: | | | | |
| Salary and Wages | \$284,255 | \$277,784 | \$1,182 ² | \$278,966 |
| Fringe Benefits | \$99,632 | \$89,954 | (\$4,957) ² | \$84,997 |
| Supplies | \$15,000 | \$17,284 | \$0 | \$17,284 |
| Travel | \$3,000 | \$2,300 | \$0 | \$2,300 |
| Other Costs | \$118,444 | \$112,222 | \$6,406 ³ | \$118,628 |
| TOTAL EXPENDITURES | \$520,331 | \$499,544 | \$2,631 | \$502,175 |

¹ Actual MDCH payments.

² Net effect of overreported wages and fringes (Finding 1) and underreported wages and fringes (Finding 2).

³ Underreported depreciation and interest and unallowable gift card (Findings 1 and 3).

Downriver Community Services
WIC Breastfeeding
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|----------|-----------------------|---------------------|-----------|
| REVENUES: | | | | |
| MDCH Grant | \$16,639 | \$15,566 ¹ | \$0 | \$15,566 |
| Local Funds Other | \$0 | \$0 | \$0 | \$0 |
| TOTAL REVENUES | \$16,639 | \$15,566 | \$0 | \$15,566 |
| EXPENDITURES: | | | | |
| Salary and Wages | \$14,976 | \$14,064 | \$0 | \$14,064 |
| Fringe Benefits | \$1,418 | \$1,502 | \$0 | \$1,502 |
| Supplies | \$245 | \$0 | \$0 | \$0 |
| TOTAL EXPENDITURES | \$16,639 | \$15,566 | \$0 | \$15,566 |

¹ Actual MDCH payments.

**Downriver Community Services
Family Planning
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

| | BUDGETED | REPORTED | AUDIT ADJUSTMENT | ALLOWABLE |
|---------------------------|------------------|------------------|---------------------|------------------|
| REVENUES: | | | | |
| Fees and Collections | \$69,211 | \$43,101 | (\$6,106) 3 | \$36,995 |
| MDCH Grant Federal | \$96,662 | \$96,662 1 | \$0 | \$96,662 |
| MDCH Grant State | \$25,391 | \$25,391 2 | \$0 | \$25,391 |
| Local Funds Other | \$0 | \$0 | \$19,633 | \$19,633 |
| TOTAL REVENUES | \$191,264 | \$165,154 | \$13,527 | \$178,681 |
| EXPENDITURES: | | | | |
| Salary and Wages | \$118,083 | \$99,304 | \$14,593 4 | \$113,897 |
| Fringe Benefits | \$28,340 | \$24,455 | \$1,565 4 | \$26,020 |
| Supplies | \$5,000 | \$1,583 | \$0 | \$1,583 |
| Medical & Pharmaceuticals | \$25,391 | \$25,391 | \$0 | \$25,391 |
| Travel | \$250 | \$293 | \$0 | \$293 |
| Other Expense | \$14,200 | \$14,128 | (\$2,631) 4 | \$11,497 |
| TOTAL EXPENDITURES | \$191,264 | \$165,154 | \$13,527 | \$178,681 |

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

2 Actual MDCH State payments for medical and pharmaceutical supplies.

3 E-Grants restriction due to no local funding budgeted. Accordingly, additional funds were placed in fees and collections to get revenue to equal expenditures.

4 Under reported wages and fringes and over reported other expenses compared to G/L. (Finding 1).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Errors in Cost Allocations and FSR Reporting

The Agency failed to report adjustments recorded in the General Ledger on the FSRs; and made errors when reporting depreciation, interest and wage allocations.

Recommendation: Implement review procedures to ensure accurate cost allocations occur and all appropriate expenditures are reported on the FSRs.

Comments: Agree

Corrective Action: To ensure any adjustments made to the General Ledger are reflected in the FSR, the Agency will run year to date ledgers as opposed to monthly ledgers to ensure all expenditures are captured in the preparation of the FSR. In addition, cost allocations will be reviewed by both the Accountant and CFO to ensure accuracy. Also, the Agency has stabilized its Accounting Staff with the hiring of a qualified Bachelor Degreed Accountant.

**Anticipated
Completion Date:** May 2015

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Payroll Distributions Not Adequately Supported and Not Accurately Completed

The Agency does not require all staff members to complete personnel activity reports, and did not distribute payroll costs to the WIC Program for an employee that spent 100% of their time working in the WIC Program from March 2014 through September 2014 according to personnel activity reports.

Recommendation: Adopt policies and procedures for the distribution of payroll costs to comply with Federal cost principles, and ensure all payroll distributions are accurately completed. We advise the Agency to consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing procedures.

Comments: Agree

Corrective Action: The Agency now requires all staff to complete personnel activity reports. Hourly employees who solely work for a single grant are required to complete bi-weekly time sheets which are signed by the staff member and Manager. Salaried individuals who solely work for a single grant are required to submit bi-weekly attestation reports which will document the program that their time was devoted to. All staff members who work for multiple programs are required to complete time and effort reports on a daily basis which document their time in each program. To ensure costs are charged to the appropriate cost center, the Agency will use an employee transfer sheet that will be signed off by finance staff when an internal transfer is made to document that the allocation of payroll expenses has been appropriately changed.

Anticipated

Completion Date: Both plans were implement in April 2015.

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Unallowable Gift Card Purchased for WIC Retiree

The Agency purchased a \$100 gift in April 2014 for a WIC employee who retired and charged the expenditure to the WIC Program.

Recommendation: Discontinue the practice of reporting gifts for retirees as a WIC Program expenditure as this type of expenditure is not allowable nor allocable under the award and Federal cost principles.

Comments: Agree

Corrective Action: No such expenditures will be charged to Federal Funding.

**Anticipated
Completion Date:** April 2015

MDCH Response: None