

Audit Report

Family Health Center, Inc.
WIC Program

October 1, 2009 – September 30, 2010



Office of Audit
Quality Assurance and Review
May 2011



RICK SNYDER
GOVERNOR

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

OLGA DAZZO
DIRECTOR

May 6, 2011

Denise Crawford, President and CEO
Family Health Center, Inc.
117 West Paterson
Kalamazoo, Michigan 49007

Dear: Ms. Crawford

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Family Health Center, Inc. WIC Program for the period October 1, 2009 through September 30, 2010.

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 plan. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's response to the Preliminary Analysis.

The over accrual of expenditures noted in Finding 1 resulted in Family Health Center, Inc. being over paid by MDCH. Consequently, funds are due back to MDCH. Please send a check payable to the State of Michigan for \$5,641 to the following address by **June 6, 2011**:

Lisa Halverson, Manager
Revenue Operations Section, Accounting Division
Michigan Department of Community Health
P.O. Box 30437
Lansing, MI 48909

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
Keith Rubley, Auditor, Office of Audit
Lisa Halverson, Manager, Revenue Operations Section

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DESCRIPTION OF AGENCY

The Family Health Center, Inc. (“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 Kalamazoo, 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 Kalamazoo County. During fiscal year 2009/2010, services included the Women, Infant and Children (WIC) Supplemental Food Program, as well as primary health care in family practice medicine, pediatrics, internal medicine, obstetrics, gynecology and dental services.

FUNDING METHODOLOGY

The Agency receives funding from various sources including: U.S. Department of Health and Human Services, and from grant programs administered through the Michigan Department of Community Health (MDCH). MDCH grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of the 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 Agency’s effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Agency’s effectiveness in reporting their WIC 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 share of costs for the WIC 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, 2009 to September 30, 2010. We performed our review procedures in March 2011. Our review procedures included the following:

- Reviewed the most recent Agency 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 a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance and adherence to policy and approval procedures.
- Reviewed cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.

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 Program.

Conclusion: The Agency was effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

FINANCIAL REPORTING

Objective 2: To assess the Agency's effectiveness in reporting their WIC 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 generally reported their WIC Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we found two exceptions related to year-end accruals (Finding 1).

Finding

1. Over Accrued Expenses Reported on Final FSR

The Agency over accrued \$5,641 in expenses at fiscal year end 2010.

In September 2010, the Agency improperly accrued conference fees, airfare and hotel accommodations in the amount of \$5,005 for three dietitians to attend a November 2010 conference in Boston. Also, the Agency over accrued Workers' Compensation expense at year-end in the amount of \$636.

According to OMB Circular A-122, for costs to be allowable under an award, they must be allocable and determined in accordance with Generally Accepted Accounting Principles (GAAP). A cost is allocable to a grant in accordance with relative benefits received. Since the benefit of the conference was not received until the next fiscal year, the accrued expense is unallowable in fiscal year end 2010. The Workers' Compensation expense accrual exceeded the known expense amount; therefore, the accrual was not in compliance with GAAP.

Recommendation

We recommend that the Agency implement review procedures to ensure that expenses are recorded in the appropriate accounting period in accordance with OMB Circular A-122 and Generally Accepted Accounting Principles (GAAP).

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 Agency.

Conclusion: The MDCH obligation under the WIC Program for fiscal year ended September 30, 2010, is \$530,715. The Agency owes MDCH a balance of \$5,641 after considering revenues and allowable expenditures as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Family Health Center, Inc.
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/08 – 9/30/09

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$538,338	\$536,356 1	(\$5,641)	\$530,715
TOTAL REVENUES	\$538,338	\$536,356	(\$5,641)	\$530,715
EXPENDITURES:				
Salary and Wages	\$330,236	\$339,732	\$0	\$339,732
Fringe Benefits	\$91,092	\$75,570	(\$636) 2	\$74,934
Supplies	\$37,500	\$47,103	\$0	\$47,103
Travel	\$27,000	\$12,103	(\$5,005) 3	\$7,098
Space Cost	\$24,502	\$24,502	\$0	\$24,502
Other Expense	\$28,008	\$37,346	\$0	\$37,346
TOTAL EXPENDITURES	\$538,338	\$536,356	(\$5,641)	\$530,715

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

2 Overaccrual of Worker's Compensation at year end. (Finding 1)

3 Year end accrual for hotel rooms, airfare and conference fees for November 2010 conference. (Finding 1)

Corrective Action Plan

Finding Number **1**

Page Reference **3**

Finding: **Over Accrued Expenses Reported on Final FSR**

The Agency over accrued \$5,641 in expenses at fiscal year end 2010.

Recommendation: Implement review procedures to ensure that expenses are recorded in the appropriate accounting period in accordance with OMB Circular A-122 and Generally Accepted Accounting Principles (GAAP).

Agency Comments: Agree with finding.

Corrective Action: Family Health Center will implement review procedures to ensure that expenses are recorded in the appropriate accounting period in accordance with OMB Circular A-122 and GAAP.

**Anticipated
Completion Date:** Effective immediately.

MDCH Response: None