

# Audit Report

Jackson County Health Department  
WIC Program

October 1, 2013 – September 30, 2014



Office of Audit  
Quality Assurance and Review  
April 2015



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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NICK LYON  
DIRECTOR

April 15, 2015

Richard Thoune, Health Officer  
Jackson County Health Department  
1715 Lansing Avenue, Suite 221  
Jackson, MI 49202

Dear Mr. Thoune:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Jackson County Health Department WIC Program 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; 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.

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  
Kaycie Strawn, Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Jackson County Health Department is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Jackson County, and the administrative office is located in Jackson, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Jackson County. The Health Department provides community health program services to the residents of Jackson County.

## **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. The WIC Program was funded by MDCH Grant Funds and Other Local Funds. Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557.

## **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 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 Health Department.

## **SCOPE AND METHODOLOGY**

We examined the Health Department'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 Jackson County Single Audit report for any WIC Program concerns.
- Reviewed the completed 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 indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed WIC equipment inventory and general Health Department 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 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. However, we noted a Purchasing Policy violation (Finding 1), and internal control exceptions related to financial reporting that are addressed in the financial reporting section of this report.

#### **Finding**

##### **1. Purchasing Policy Violation**

The Health Department did not follow the County's Purchasing Policy when providing \$40,000 to Allegiance Prevention and Community Health in support of the 2014 Jackson County Behavioral Risk Factor Survey.

The Health Department is required to comply with the County of Jackson's Purchasing Policy. The Purchasing Policy requires the following:

*Purchases of budgeted services, supplies, and equipment anticipated to be greater than \$10,000 - \$50,000 shall be secured through a formal purchase order approved by the Department Head and the Deputy County Administrator and shall require three (3) written quotations unless purchased from an existing competitively bid governmental contract, pursuant to the terms of the contract.*

The Health Department did not secure a formal purchase order approved by the Department Head and the Deputy County Administrator, nor did they maintain documentation to support that three written quotations were considered. A similar survey was approved in 2011, and the Health Department was under the assumption this approval carried forward to the 2014 survey. Additionally, the Health Department was under the assumption that the survey is required every three years. However, the MDCH requirement to perform a health assessment

every three years was eliminated in 2004. Although, MDCH expects Health Departments to obtain and review data for health assessment purposes, and determine priorities based on the data. Accordingly, the survey is considered an allowed activity and allowed cost.

### **Recommendation**

We recommend that the Health Department take action to ensure compliance with the County's Purchasing Policy by securing the necessary approvals, obtaining necessary quotations, and adequately documenting the significant history related to procurements.

## **FINANCIAL REPORTING**

**Objective 2:** To assess the Health Department'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 Health Department was generally effective in reporting its WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we identified four financial reporting exceptions: reporting indirect costs on the FSR based on a budgeted cost pool and budgeted cost distribution (Finding 2), reporting expenses on the FSR that did not agree with the underlying accounting records (Finding 3), reporting termination costs as part of direct program expenses (Finding 4), and paying a contractor in excess of the contracted hourly rate (Finding 5).

### **Finding**

#### **2. Indirect Costs Improperly Reported**

The Health Department reported indirect costs on the FSR based on a budgeted cost pool and budgeted distribution base resulting in an overstated indirect cost amount.

The Health Department's contract with MDCH (Part II, Section IV, Part D) requires that the FSR report total actual program expenditures. Additionally, the Health Department's contract with MDCH (Part II, Section III, Part A) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). For costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225. According to OMB Circular A-87, Appendix A, Section C. 3. a.:

*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 Health Department used 54.64% as the rate applied to salaries and fringes to report the indirect expense amount. This was based on a budgeted cost pool and budgeted distribution base. We calculated that the indirect rate should have been 39.51% based on actual expenditures. When applying this to salaries and fringes, the indirect expense should have been reported at \$245,236 rather than \$339,170 for the WIC Program.

An adjustment for \$93,934 is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This finding does not affect funding since local funds were used to fund more than the amount of the adjustment. However, we applied the recalculated indirect rate to a sample of other MDCH programs to determine any possible impact. We identified three programs that the recalculated indirect rate directly impacted MDCH funding as follows:

<b>MDCH Program</b>	<b>Financial Impact on MDCH Funding</b>
Medicaid Outreach	\$23,929
CSHCS Medicaid Outreach	\$7,513
FDA Tobacco Retailer Inspections	\$1,105

The Health Department has now submitted revised FSRs for the Medicaid Outreach, CSHCS Medicaid Outreach, and FDA Tobacco Retailer Inspection Programs.

**Recommendation**

We recommend that the Health Department implement policies and procedures to ensure indirect expenses are reported on FSRs based on the allocable portions of actual and allowable costs.

**Finding**

**3. Financial Status Report and General Ledger Do Not Reconcile (Repeat)**

The Health Department overstated their direct expenses on the FSR by \$2,664 from including the same expenses in two different categories on the FSR.

The Health Department’s contract with MDCH (Part II, Section IV, Part D) requires that the FSR report total actual program expenditures.

The \$2,664 overstatement is the result of a move of expenses to the “Other” category without removing the expenses from the “Contractual” category on the FSR.

The issue of the FSR not reconciling to the general ledger was also cited in the FYE 2012 Audit. The Health Department’s response was that an outside consultant reviews the FSRs before they are submitted in E-Grams. Additionally, the County Finance Director reviews the FSRs to ensure they agree with the general ledger.

An adjustment for \$2,664 is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. However, this finding does not affect MDCH funding since local funds were used to fund more than the amount of the adjustment.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure a second party review of the FSR to verify it reconciles with the general ledger.

### **Finding**

#### **4. Termination Costs Improperly Reported**

The Health Department improperly reported termination costs as direct expenses on the FSR.

The Health Department's contract with MDCH (Part II, Section III, Part A) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). According to OMB Circular A-87, Appendix B, Section 8. d. (3.):

*Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.*

The Health Department expenses payments for unused leave when an employee retires or terminates employment directly to the employee's "home department." However, these payments should be treated as a general administrative expense and allocated to all activities of the Health Department.

No adjustment will be made on the attached Statement of MDCH Grant Program Revenues and Expenditures because an accurate calculation could not be easily determined given the multiple programs likely receiving direct charges of termination costs, and the likelihood of no financial impact given the level of local funding.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure termination costs are allocated as a general administrative expense to all activities of the Health Department.

## **Finding**

### **5. Payments to Contractor Exceed Contractual Hourly Rate**

The Health Department paid a contractor an hourly rate that exceeded the corresponding contractual agreement terms and could not provide adequate documentation to support the overpayment.

The Health Department's contract with MDCH (Part II, Section III, Part A) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). OMB Circular A-87 (2 CFR Part 225), Appendix A, Section C. states:

- 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:*
  - a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards...*
  - j. Be adequately documented.*

The Health Department paid a contracted employee \$2.27 more per hour than the rate agreed upon in the contract for every quarterly payment in the fiscal year. This resulted in an overstatement of the Health Department's General Administrative Expenses by \$944.32.

Payments that exceed the corresponding contractual agreement are neither necessary nor reasonable and are therefore unallowable. Adjustments will not be made since the ultimate impact on programs through the indirect allocation is insignificant.

## **Recommendation**

We recommend that the Health Department implement controls to ensure payments agree with contract terms and reported costs are allowable and adequately documented.

## **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, 2014, is \$857,468. 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.



## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Purchasing Policy Violation

The Health Department did not follow the County's Purchasing Policy when providing \$40,000 to Allegiance Prevention and Community Health in support of the 2014 Jackson County Behavioral Risk Factor Survey.

**Recommendation:** Take action to ensure compliance with the County's Purchasing Policy by securing the necessary approvals, obtaining necessary quotations, and adequately documenting the significant history related to procurements.

**Comments:** The County considers this finding to be an isolated incident. As mentioned above in the report, the violation occurred due to the Health Department approving the invoice based on previous County Board consent and the assumption that a survey needed to be conducted every three years. The work was performed in conjunction with another local Health provider who obtained vendor quotations for the survey but was not retained by the Health Department.

**Corrective Action:** The Health Department Directors and Finance staff will re-review the County Purchasing Policy and ensure that all future purchases comply with County policy. Quotations obtained by a different party for a joint purchase will be retained by the Health Department to maintain proper documentation.

**Anticipated Completion Date:** June 30, 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Indirect Costs Improperly Reported

The Health Department reported indirect costs on the FSR based on a budgeted cost pool and budgeted distribution base resulting in an overstated indirect cost amount.

**Recommendation:** Implement policies and procedures to ensure indirect expenses are reported on FSRs based on the allocable portions of actual and allowable costs.

**Comments:** Due to employee turnover and lack of specific reporting requirements, the budgeted indirect costs were included on the Final FSR instead of actual indirect costs. Prior to the on-site WIC audit, County Finance took the initiative to contact all affected grant programs for further instruction to remediate the noted issue.

**Corrective Action:** All revised FSRs have been submitted to MDCH for any affected grant program. For all future submitted Final FSRs, the County will ensure that actual indirect costs are used instead of budgeted indirect costs through secondary review of the Final FSR and the final indirect cost rate. In addition, other Finance personnel will be cross trained on MDCH and Federal Compliance to ensure this procedure is disseminated if future turnover occurs.

**Anticipated Completion Date:** December 31, 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Financial Status Report and General Ledger Do Not Reconcile (Repeat)

The Health Department overstated their direct expenses on the FSR by \$2,664 from including the same expenses in two different categories on the FSR.

**Recommendation:** Implement policies and procedures to ensure a second party review of the FSR to verify it reconciles with the general ledger.

**Comments:** The County has maintained second party review of FSRs throughout FY14 and FY15 by an outside consultant, Health Officer, or County Finance Director.

**Corrective Action:** The County will continue its practice of second party review with a focus of ensuring the current general ledger agrees to the FSR.

**Anticipated Completion Date:** September 30, 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** Termination Costs Improperly Reported

The Health Department improperly reported termination costs as direct expenses on the FSR.

**Recommendation:** Implement policies and procedures to ensure termination costs are allocated as a general administrative expense to all activities of the Health Department.

**Comments:** The termination costs were included as direct expenses on the FSR due to lack of Federal Grant compliance knowledge.

**Corrective Action:** All termination costs for the County will be included in the respective department's general administrative costs. The County Finance department will continue to participate in Federal Grant Compliance trainings to increase knowledge of allowable costs and other reporting requirements.

**Anticipated**

**Completion Date:** December 31, 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 6

**Finding:** Payments to Contractor Exceed Contractual Hourly Rate

The Health Department paid a contractor an hourly rate that exceeded the corresponding contractual agreement terms and could not provide adequate documentation to support the overpayment.

**Recommendation:** Implement controls to ensure payments agree with contract terms and reported costs are allowable and adequately documented.

**Comments:** The Health Department has reached out to the contractor and requested that any prior year overpayments offset the next invoice provided. All future invoices related to this contractor will include the proper contractual rate until a contract amendment is completed.

**Corrective Action:** The Health Department personnel that approve contractual related invoices will ensure that they have access to review the associated agreements. In addition, the above mentioned personnel will ensure that the invoice terms and rates agree to its related contract.

**Anticipated Completion Date:** September 30, 2015

**MDCH Response:** None