

# Audit Report

## **Keweenaw Bay Indian Community WIC Program**

October 1, 2012 – September 30, 2013



Office of Audit  
Quality Assurance and Review Section  
November 2014



RICK SNYDER  
GOVERNOR

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

NICK LYON  
DIRECTOR

November 18, 2014

Francis LaPointe, Jr., CFO  
Keweenaw Bay Indian Community  
16429 Beartown Road  
Baraga, Michigan 49908

Dear Mr. LaPointe:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Keweenaw Bay Indian Community WIC Program for the period October 1, 2012 through September 30, 2013.

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 Comments and Recommendations. The Comments and Recommendations include the agency'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  
Keith Rubley, Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Keweenaw Bay Indian Community (The Tribe) is governed by the Tribal Council. The Tribe is located on the Keweenaw Bay Reservation in Baraga County, and the administrative office is located in Baraga, Michigan. The Tribe provides a wide variety of general governmental and grant activities including the Women, Infants, and Children (WIC) Supplemental Food Program.

## **FUNDING METHODOLOGY**

The Tribe's services are funded from local sources and grant programs. The Michigan Department of Community Health (MDCH) provides the Tribe with grant funding 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.

## **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 Tribe's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Tribe'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 Tribe.

## SCOPE AND METHODOLOGY

We examined the Tribe's records and activities for the fiscal period October 1, 2012 to September 30, 2013. Our review procedures included the following:

- Reviewed the most recent Keweenaw Bay Indian Community 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 payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect and space cost allocations.

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 Tribe's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Tribe 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 Tribe'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 Tribe reported its WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. An exception, however, was noted where a sick pay incentive payment was classified as a fringe benefit rather than salary and wages. A comment and recommendation is included in the report.

## **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 Tribe.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2013, is \$66,651. 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.

**Keweenaw Bay Indian Community**  
**WIC Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/12 - 9/30/13**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$66,672	\$66,651 <sup>1</sup>	\$0	\$66,651
Other Revenue	\$0	\$0	\$0	\$0
Local Funds Other	\$12,096	\$12,576	\$0	\$12,576
<b>TOTAL REVENUES</b>	<b>\$78,768</b>	<b>\$79,227</b>	<b>\$0</b>	<b>\$79,227</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$28,642	\$29,575	\$2,845 <sup>2</sup>	\$32,420
Fringe Benefits	\$24,744	\$26,270	(\$2,845) <sup>2</sup>	\$23,425
Supplies & Materials	\$3,300	\$3,990	\$0	\$3,990
Contractual	\$3,786	\$3,247	\$0	\$3,247
Travel	\$5,200	\$3,570	\$0	\$3,570
Other Expenses	\$13,096	\$12,575	\$0	\$12,575
<b>TOTAL EXPENDITURES</b>	<b>\$78,768</b>	<b>\$79,227</b>	<b>\$0</b>	<b>\$79,227</b>

<sup>1</sup> Actual MDCH payments.

<sup>2</sup> Misclassification of Sick Pay Incentive as fringe benefit (Comment and Recommendation).

## **Comments and Recommendations**

### **Misclassification of Sick Leave Pay Incentive**

The Tribe improperly classified sick leave payouts as a fringe benefit rather than salary and wages. At the end of the year, if an employee has accumulated more than 720 hours of sick leave, the excess is either paid out at the employee's hourly rate, or the amount is placed in the employee's 401K retirement account. This compensation is taxable to the employee and should be classified as salary and wages. Since the indirect cost distribution is based on salary and wages, the classification of sick leave payouts would impact the indirect cost distribution.

### **Recommendation**

We recommend the Tribe take action to ensure sick leave payouts are properly classified as salary and wages rather than fringe benefits.

### **Response**

The Tribe will reclassify the sick leave payout as salary and wages rather than fringe benefits for FYE 2014 and all subsequent years.