



STATE OF MICHIGAN  
DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

RICK SNYDER  
GOVERNOR

NICK LYON  
DIRECTOR

October 12, 2016

Eileen Chiang, Chief Financial Officer  
Family Health Center Inc.  
117 W. Paterson Street  
Kalamazoo, Michigan 49007-2557

Dear Ms. Chiang:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Family Health Center Inc. WIC Program for the period October 1, 2014 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 Grant Program Revenues and Expenditures; Corrective Action Plans; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans, and Comments and Recommendations include the agency's paraphrased response to the Preliminary Analysis, and the Bureau of Audit, Reimbursement, and Quality Assurance'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  
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: Stan Bien, Director, WIC Division  
Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance  
Bryce Wooton, Auditor, Quality Assurance and Review  
Ben Stap, Senior Accountant, Family Health Center Inc.

# Audit Report

Family Health Center Inc.  
WIC Program

October 1, 2014 – September 30, 2015



Bureau of Audit, Reimbursement, and Quality Assurance  
Quality Assurance and Review  
October 2016

## TABLE OF CONTENTS

	Page
Description of Agency .....	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology .....	1
<u>Conclusions, Findings, and Recommendations</u>	
Financial Reporting.....	2
1. Non-WIC Related Invoices Charged to WIC (Repeat).....	2
2. Unallowable Expenditures Not Properly Excluded from Administration Indirect Cost Pool .....	3
MDHHS Share of Costs and Balance Due .....	4
Statement of Grant Program Revenues and Expenditures .....	5
Corrective Action Plans .....	6
Comments and Recommendations.....	8

## **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.

## **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 Health and Human Services (MDHHS). MDHHS 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 MDHHS 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 financial reporting, and to determine the MDHHS share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Agency’s effectiveness in reporting their WIC Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.
2. To determine the MDHHS share of costs for the WIC Program in accordance with applicable MDHHS 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, 2014 to September 30, 2015. Our review procedures included the following:

- Reviewed the most recent Agency Single Audit report for any WIC Program concerns.
- Reviewed the completed Subrecipient 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 allocations for reasonableness, and an equitable methodology.

- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Review WIC equipment inventory.

Our audit did not include a review of program content or quality of services provided.

## CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

### FINANCIAL REPORTING

**Objective 1:** To assess the Agency's effectiveness in reporting their WIC Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Agency generally reported their WIC Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we found exceptions related to non-WIC related invoices being charged to WIC (Finding 1) (Repeat) and unallowable expenditures not being properly excluded from the administration indirect cost pool (Finding 2).

#### **Finding**

##### **1. Non-WIC Related Invoices Charged to WIC (Repeat)**

The Agency reported expenses for technology maintenance on systems that are not strictly 100% WIC Program related.

The MDHHS Grant Agreement, Part II, Section III. A. Compliance with Applicable Laws states:

*The Grantee will comply with applicable federal and state laws, guidelines, rules and regulations in carrying out the terms of this agreement. The Grantee will also comply with all applicable general administrative requirements such as OMB Circulars covering cost principles, grant/agreement principles, and audits in carrying out the terms of this agreement.*

According to OMB Circular A-122, Appendix A, Section A:

- 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.**

The Agency expensed two technology maintenance invoices to the WIC Program, but the maintenance was for systems that are not strictly 100% WIC Program related. Therefore, the

invoices should not have been directly charged to the WIC Program. The invoices were expensed to the WIC Program in error according to the Senior Accountant. An adjustment decreasing WIC "Other Expenses" by \$2,270 is shown on the attached Statement of Grant Program Revenues and Expenditures.

This issue was also cited in our FYE 2012 audit. The Agency's response was that they will perform a review of all expenditures directly charged to the WIC Program as part of their normal accounts payable disbursement process. Additionally, general ledger detail of grant expenditures will be reviewed on a monthly basis to ensure that all transactions charged to the grant benefit the WIC Program and are allowable per the grant agreement.

### **Recommendation**

We recommend that the Agency implement policies and procedures to ensure that only costs benefitting the WIC Program get expensed to the WIC Program.

### **Finding**

#### **2. Unallowable Expenditures Not Properly Excluded from Administration Indirect Cost Pool**

The Agency included unallowable expenses in the indirect cost pool for allocation to the WIC Program.

The MDHHS Grant Agreement, Part II, Section III. A. Compliance with Applicable Laws states:

*The Grantee will comply with applicable federal and state laws, guidelines, rules and regulations in carrying out the terms of this agreement. The Grantee will also comply with all applicable general administrative requirements such as OMB Circulars covering cost principles, grant/agreement principles, and audits in carrying out the terms of this agreement.*

According to OMB Circular A-122, Appendix A, Section A:

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.*

According to OMB Circular A-122, Appendix B:

12. *Donations and contributions.*
  - a. *Contributions or donations rendered. Contributions or donations, including cash, property, and services, made by the organization, regardless of the recipient, are unallowable.*

The Agency included donation costs of \$4,880 in the administration cost pool. After the correction, removing the unallowable expenditures, we determined that administration indirect costs were overstated by \$227. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

**Recommendation**

We recommend that the Agency implement policies and procedures to ensure that only allowable costs get included in the indirect cost allocation.

**MDHHS SHARE OF COSTS AND BALANCE DUE**

**Objective 2:** To determine the MDHHS share of costs for the WIC Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Agency.

**Conclusion:** The MDHHS obligation under the WIC Program for fiscal year ended September 30, 2015, is \$599,869. The audit adjustments shown on the attached Statement of Grant Program Revenues and Expenditures had no impact on MDHHS funding.

**Family Health Center Inc.**  
**WIC Special Supplemental**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/14 - 9/30/15**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
State Agreement	\$599,869	\$599,869 <sup>1</sup>	\$0	\$599,869
Local	\$188,788	\$59,636	(\$2,497)	\$57,139
<b>TOTAL REVENUES</b>	<b>\$788,657</b>	<b>\$659,505</b>	<b>(\$2,497)</b>	<b>\$657,008</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$532,546	\$434,813	\$0	\$434,813
Fringe Benefits	\$118,505	\$103,992	\$0	\$103,992
Travel	\$4,000	\$3,885	\$0	\$3,885
Supplies & Materials	\$4,000	\$2,487	\$0	\$2,487
Other Expense	\$129,606	\$114,328	(\$2,497) <sup>2,3</sup>	\$111,831
<b>TOTAL EXPENDITURES</b>	<b>\$788,657</b>	<b>\$659,505</b>	<b>(\$2,497)</b>	<b>\$657,008</b>

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

<sup>2</sup> Non-WIC Related Expenditures Charged to WIC (Finding 1) - \$2,270 Decrease After Corrections

<sup>3</sup> Unallowable Expenses Not Properly Excluded from Administration Cost Pool (Finding 2) - \$227 Decrease After Corrections

## Corrective Action Plan

**Finding Number** 1

**Page Reference** 2

**Finding:** Non-WIC Related Invoices Charged to WIC (Repeat)

The Agency reported expenses for technology maintenance on systems that are not strictly 100% WIC Program related.

**Recommendation:** Implement policies and procedures to ensure that only costs benefitting the WIC Program get expensed to the WIC Program.

**Agency Comments:** Agree with finding.

**Corrective Action:** The Agency will perform a review of all expenditures directly charged to the WIC Program as part of their normal accounts payable disbursement process. Additionally, general ledger detail of grant expenditures will be reviewed on a monthly basis to ensure that all transactions charged to the grant benefit the WIC Program and are allowable per the grant agreement.

**Anticipated  
Completion Date:** 11/30/2016

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number** 2

**Page Reference** 3

**Finding:** Unallowable Expenses Not Properly Excluded from Administration Indirect Cost Pool

The Agency included unallowable expenses in the indirect cost pool for allocation to the WIC Program.

**Recommendation:** Implement policies and procedures to ensure that only allowable costs get included in the indirect cost allocation.

**Agency Comments:** Agree with finding.

**Corrective Action:** The Agency will implement procedures to identify and exclude any unallowable expenses from the indirect cost pool for allocation to the WIC Program.

**Anticipated Completion Date:** 11/30/2016

**MDHHS Response:** None

## Comments and Recommendations

### 1. Travel Expenditure Not Reported in Fiscal Year Incurred and Does Not Comply with Agency's Travel Reimbursement Policy

The Agency is required to comply with OMB Circular A-122 and their Travel Policy. According to OMB Circular A-122, to be allowable, costs must be adequately documented. According to the Agency's Travel Policy, employees seeking reimbursement for approved travel expenses must complete a Travel Expense Form within 10 calendar days of return from their trip. Receipts must document all expenses. While travel reimbursement documentation includes a "Check Request Form" with proper approval, the reimbursement lacks the "Travel Expense Form" summarizing expenses separately. The supporting receipts are dated March 2014, but were not paid and reported until October 2014, in the next fiscal year. We recommend that the Agency implement policies and procedures to ensure proper documentation is obtained and retained, and reimbursements occur in the fiscal year in which the expense was incurred.

**Management Response:** The Agency agrees with the comments. The Agency will enforce the requirements of its existing travel policy. Estimated completion date is 11/30/2016.

### 2. Travel Expenditure Not Supported by Appropriate Documentation

The Agency is required to comply with OMB Circular A-122. According to OMB Circular A-122, to be allowable, costs must be adequately documented. Travel expenditure documentation includes the hotel invoice which shows charges for "Pool Bar" and due to the lack of receipts we cannot verify this expenditure does not include alcoholic beverages. According to OMB Circular A-122, costs of alcoholic beverages are unallowable. We recommend that the Agency implement policies and procedures to ensure that all employees provide proper supporting documentation for all expenditures.

**Management Response:** The Agency agrees with the comments. The Agency will require detailed receipts for all travel expenditures. Estimated completion date is 11/30/2016.

### **3. Independent Contractor Agreement Expired**

The Agency is required to comply with the MDHHS Grant Agreement and OMB Circular A-122. The MDHHS Grant Agreement, Part II, Section III. H. Subcontracts states that a written subcontract must be executed by all affected parties prior to the initiation of any new subcontract activity. According to OMB Circular A-122, to be allowable, costs must be adequately documented. The Agency has been following the terms of an agreement with a contractor that expired June 30, 2013. We recommend that the Agency implement policies and procedures to ensure all contracted services are supported by current agreements to protect all parties involved.

**Management Response:** The Agency agrees with the comments. The Agency will review all existing contracts to ensure they have not expired and will continue to review contracts on an ongoing basis to ensure all contracted services are supported by current agreements. Estimated completion date is 11/30/2016.

### **4. Employee Morale Costs (WMU Tickets for Family Fun Night) Not In Written Policy**

The Agency is required to comply with OMB Circular A-122. According to OMB Circular A-122, to be allowable, costs must be adequately documented. OMB Circular A-122, Appendix B, Section 14 states that costs of entertainment, including amusement, diversion, and social activities and any costs directly associated with such costs (such as tickets to shows or sports events, meals, lodging, rental, transportation, and gratuities) are unallowable. However, OMB Circular A-122 Appendix B, Section 13 states that the costs of employee information publications, health or first-aid clinics and/or infirmaries, recreational activities, employee counseling services, and any other expenses incurred in accordance with the non-profit organization's established practice or custom for the improvement of working conditions, employer-employee relations, employee morale, and employee performance are allowable. The new 2 CFR 200 rules and regulations have revised the criteria for allowed expenditures. § 200.437 states that costs incurred in accordance with the non-Federal entity's documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable. We recommend that the Agency implement a written policy regarding employer-employee relations events to ensure allowability in the future.

**Management Response:** The Agency agrees with the comments. The Agency will create policies and procedures documenting its practices regarding employer-employee relation events. Estimated completion date is 11/30/2016.