

Audit Report

Detroit Department of Health and Wellness Promotion
WIC Program
For the Two Years
October 1, 2001 – September 30, 2003



Office of Audit
Quality Assurance and Review Section
July 2006



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DEPARTMENT OF COMMUNITY HEALTH
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JANET OLSZEWSKI
DIRECTOR

July 11, 2006

Phyllis Meadows, PhD, MSN, Director and Health Officer
Detroit Department of Health and Wellness Promotion
Herman Kiefer Health Complex
1151 Taylor
Detroit, Michigan 48202

Dear Dr. Meadows:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Detroit Department of Health and Wellness Promotion WIC Program for the two years October 1, 2001 through September 30, 2003.

The final report contains the following: description of agency; funding methodology; purpose and 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

cc: Alethia Carr, Director, WIC Division
James B. Hennessey, Director, Office of Audit
David Figg, Audit Manager, Office of Audit

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DESCRIPTION OF AGENCY

The Detroit Department of Health and Wellness Promotion (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is accounted for as the Health Activity of the City General Fund, and the administrative office is located in the Herman Keifer Health Complex in Detroit, Michigan. The Health Department operates under the legal supervision and control of the Mayor and City Council, with divided powers and duties as provided by law and the city charter. The Health Department provides community health program services to the residents of Detroit. These services include: Food Service Sanitation, Vision Screening, Hearing Screening, Immunizations, Sexually Transmitted Disease Control, General Communicable Disease Control, Tuberculosis Control, Adolescent Health, Child Health, Children With Special Health Care Services (CSHCS), Childhood Lead, Family Planning, Maternal and Child Outreach Enrollment & Coordination, Prenatal Care Outreach and Advocacy, and Women Infants and Children (WIC) Supplemental Food Program.

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.

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 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 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 Health Department.

SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the two fiscal years October 1, 2001 to September 30, 2003. We performed our review procedures in April through December 2004, and performed additional follow-up work in 2005. Our review procedures included the following:

- Reviewed the most recent City of Detroit 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 payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal regulations.
- Reviewed WIC equipment inventory and general Agency equipment inventory records.
- Reviewed WIC coupon inventory controls.

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 exceptions relating to contract management (Finding 1).

Finding

1. Contract Management Deficiencies

The Health Department was not effective in managing their subcontract agreements for both FY 01/02 and 02/03.

The following deficiencies were noted with the administration of subcontract agreements:

Untimely Execution of Subcontract Agreements – The City executed all of the subcontracts for both years audited more than nine months after the beginning date of the contract. Two of the five contracts were executed nearly 15 months after the beginning date of the contract. (See Schedules A and B for details.)

Vital program operations were conducted for most of a year without an approved contract. The subcontract agreements state in Section 4.01 that the contract is not valid or authorized until approved by resolution of the City Council and signed by the Purchasing Director. Some contractors worked without pay until the contracts were fully executed.

Per the MDCH grant agreement, Part II General Provisions, Section III, H 1., the Health Department must assure that a written contract is executed by all affected parties prior to the initiation of any new subcontract activity.

Subcontract Terms Not Consistent with MDCH WIC Budget – The subcontract agreements are multi-year agreements, and the per-year budget amounts were always inconsistent with the MDCH Grant Budget amounts. Subcontracts contain per-year budgets that are less than what MDCH agreed to pay for each provider, or more than what MDCH agreed to pay for each provider. In the first scenario, the Health Department is limiting what they can actually pay their providers. In the second scenario, the Health Department is committing local funds to pay the difference. Further, the Health Department was not consistent as to which budget amount to enforce with various contractors. (See Schedules A and B for details.)

Per the MDCH grant agreement, Part II General Provisions, Section III, H 2., the Health Department must assure that any executed subcontract shall require the subcontractor to comply with all applicable terms and conditions of this agreement.

Payment to Subcontractor in Excess of Contract Limit – The Health Department paid subcontractors in excess of budget limits. The Health Department paid some subcontractors more than the MDCH budget limit and one subcontractor more than the subcontract per-year limit. (See Schedules A and B for details.)

While paying a subcontractor in excess of the MDCH budget limit did not impact MDCH funding as the excess was paid by local funds, paying a subcontractor in excess of the subcontract per-year limit is not reasonable and necessary for the proper and efficient performance and administration of the award and unallowable under the provisions of Office of Management and Budget (OMB) Circular A-87.

Recommendation

We recommend that the Health Department implement contract management policies and procedures that ensure:

1. timely execution of subcontract agreements;
2. subcontract terms agree with MDCH contracts and budgets; and
3. payments to subcontractors do not exceed budget limits.

FINANCIAL REPORTING

Objective 2: To assess the Health Department'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 Health Department generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions with reported direct WIC Program costs (Finding 2), and Agency Support Indirect Costs (Findings 3 and 4).

Finding

2. Under-Reported Direct Program Costs

The Health Department under-reported the direct costs for the WIC Program in comparison to the general ledger and support documents for fiscal years 01/02 and 02/03.

Direct WIC Program costs were reported up to the amount of WIC grant funding and costs incurred beyond that, which were funded by the Health Department, were not reported. The actual direct costs per the general ledger and support documents exceeded the reported costs by \$456,683 in fiscal year 01/02, and by \$71,479 in fiscal year 02/03.

Per Office of Management and Budget (OMB) Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section C. 3. - Allocable Costs - 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 above adjustments are reflected in the attached Statements of MDCH Grant Program Revenues and Expenditures. These adjustments do not affect the MDCH WIC grant funds.

Recommendation

We recommend that the Health Department implement review procedures to ensure that actual total WIC costs and funding sources are reported on the Financial Status Reports.

Finding

3. Inaccurate Indirect Cost Allocation

The Health Department under-reported indirect costs for the WIC program for fiscal years 01/02 and 02/03.

The under-reported WIC indirect costs resulted from an under-reported direct cost allocation base (Finding 2).

The allocation base per the indirect rate computation is Modified Total Direct Cost (MTDC), which is defined as direct cost, less capital expenditures and major contracts. The WIC Program MTDC adjustments are as follows:

	<u>FY 01/02</u>	<u>FY 02/03</u>
Reported WIC direct cost base	\$3,325,656	\$3,814,593
Under-reported direct cost – in total	<u>456,683</u>	<u>71,479</u>
Adjusted WIC Program MTDC	<u>\$3,782,339</u>	<u>\$3,886,072</u>

Per OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section F – Indirect Costs, Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Errors in the MTDC base result in inaccurate overhead cost allocations to programs. The overhead cost allocation is important in analyzing and reporting the correct total cost to operate each program.

The above audited MTDC bases for WIC were used to determine the audited indirect cost allocations to WIC, which are shown in the attached Statements of MDCH Grant Program Revenues and Expenditures. These adjustments do not affect the MDCH WIC grant funds since the grant funds were already fully spent.

Recommendation

We recommend that the Health Department implement review procedures to ensure that the allocation of indirect cost to WIC is computed using the correct Modified Total Direct Cost base.

Finding

4. Duplicate Agency Support Cost in the Indirect Cost Rate Computation

The Health Department included duplicate Agency Support Costs for Finance and Personnel totaling \$1,559,716 in the computation of the Fiscal Year 01/02 Indirect Rate of 12.66% that was used for reporting indirect cost to the program.

These costs were listed in the rate computation as direct Health Department costs, and again as part of the City Central Service Costs allocated to the Health Department.

Per OMB Circular A-87, Attachment A, General Principles for Determining Allowable Costs, Section F – Indirect Costs, Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and indirect cost pools should be distributed to benefited cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

The City discovered the error, and the rate was corrected to 10.07%, however the correction was after the final Financial Status Report was submitted to MDCH. The MDCH Grant funds were not affected by this error because available grant funds were fully used for direct charges.

Subsequent Status

The methodology error that caused the duplicate Finance and Personnel charges was corrected in the rate computation for Fiscal Year 02/03.

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, 2002, is \$3,711,308, and for fiscal year ended September 30, 2003 is \$3,987,491. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and eligible costs. The audit made no adjustments affecting MDCH WIC grant program funding.

Schedule A

City of Detroit Health Department
WIC Program
Subcontract Summary
FY 2001-2002

Contractor	MDCH Budget 01/02	Subcontract Agreement		Date Approved by City Council	Cost Reported to MDCH	Cost Paid to Contractor	Additional Unreported to MDCH
		Multi-year	Maximum Per Year				
Omni Care	\$151,800	\$594,000 Three years 10/1/00-9/30/03	\$198,000	7/20/01	\$103,983	\$160,826 ¹	\$56,843
Hutzel Hospital	\$132,000	\$268,000 Two years 10/1/01-9/30/03	\$134,000	8/14/02	\$111,899	\$117,410	\$5,511
Arab American Chaldean	\$285,600	\$536,000 Two years 10/1/01-9/30/03	\$268,000	12/26/02	\$168,763	\$268,000 ²	\$99,237
Moms and Babes	\$85,500	\$144,000 Two years 10/1/00-9/30/02	\$72,000	8/13/01	\$64,680	\$85,388 ³	\$7,320

- 1** Amount is within the Sub-Contract Budget, but exceeds the MDCH Budget. The amount paid to the Contractor in excess of the MDCH Budget, was paid by Local funds. Therefore, there is no effect on Grant Funds.
- 2** The Contractor billed a total of \$294,425 for the year. The Health Department limited the payments to the Contractor up to the per-year contract amount of \$268,000. Therefore, the Contractor was not paid for \$26,425. Note that the MDCH budget was stated at \$285,600; an additional \$17,600.
- 3** The amount billed by and paid to the contractor of \$85,388 exceeds the sub-contract per-year budget by \$13,388. The payment by the Health Department in excess of the per-year budget, was not consistent with note 2 above where the payments to the contractor were limited to the per-year budget.

**City of Detroit Health Department
WIC Program
Subcontract Summary
FY 2002-2003**

Contractor	MDCH Budget 02/03	Subcontract Agreement		Date Approved by City Council	Cost Reported to MDCH	Cost Paid to Contractor	Additional Unreported to MDCH
		Multi-year	Maximum Per Year				
Omni Care	\$168,300	\$594,000 Three years 10/1/00-9/30/03	\$198,000	7/20/01	\$155,699	\$155,699 . 1	\$0
Hutzel Hospital	\$97,000	\$268,000 Two years 10/1/01-9/30/03	\$134,000	8/14/02	\$93,555	\$93,555	\$0
Arab American Chaldean	\$336,000	\$536,000 Two years 10/1/01-9/30/03	\$268,000	12/26/02	\$244,055	\$268,000 2	\$23,945
Moms and Babes	\$99,000	\$270,000 Two years 7/1/02-6/30/04	\$135,000	8/27/03	\$96,450	\$106,493 3	\$10,043

1 The Contractor billed total cost of \$168,107, but was not paid for September 2003 cost of \$12,408.

2 The Contractor billed a total of \$325,374 for the year. The Health Department limited the payments to the Contractor up to the per-year contract amount of \$268,000. Therefore, the Contractor was not paid for \$57,374. Note that the MDCH budget was stated at \$336,000.

3 Amount is within the Sub-Contract Budget, but exceeds the MDCH Budget. The amount paid to the Contractor in excess of the MDCH Budget, was paid by Local funds. Therefore, there is no effect on Grant funds.

**Detroit City Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/01 – 9/30/02**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ELIGIBLE
REVENUES:				
MDCH Grant	\$3,711,308	\$3,711,308 ¹	\$0	\$3,711,308
Local Funds	\$453,661	\$35,376	\$416,537	\$451,913
TOTAL REVENUES	\$4,164,969	\$3,746,684	\$416,537	\$4,163,221
EXPENDITURES:				
Salary and Wages	\$1,840,240	\$1,796,431	\$211,997 ²	\$2,008,428
Fringe Benefits	\$1,078,749	\$936,234	\$104,148 ²	\$1,040,382
Equipment	\$0	\$0	\$0	\$0
Contractual – Omni Care	\$151,800	\$103,983	\$56,843 ²	\$160,826
- Hutzell Hospital	\$132,000	\$111,899	\$5,511 ²	\$117,410
- Arab American Chaldean	\$285,600	\$168,763	\$99,237 ²	\$268,000
- Moms and Babes	\$85,500	\$64,680	\$7,320 ²	\$72,000
Security	\$13,800	\$13,366	\$1,882 ²	\$15,248
Supplies	\$49,227	\$56,611	(\$7,625) ²	\$48,986
Travel	\$6,000	\$2,294	\$204 ²	\$2,498
Communications	\$4,000	\$2,505	\$95 ²	\$2,600
Space Cost – Clinic	\$44,412	\$0	\$36,945 ²	\$36,945
Other Expense	\$15,480	\$68,890	(\$59,874) ²	\$9,016
Agency Support Indirect Cost	\$458,161	\$421,028	(\$40,146) ³	\$380,882
TOTAL EXPENDITURES	\$4,164,969	\$3,746,684	\$416,537	\$4,163,221

- ¹ Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.
- ² Expenditures Adjusted to General Ledger and support documents – Total of \$456,683 (Finding 2).
- ³ Recomputed Agency Support Indirect Cost allocation to WIC (Findings 3 and 4).

**Detroit Health Department
WIC Grant
Statement of MDCH Grant Program Revenues and Expenditures
10/1/02– 9/30/03**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ELIGIBLE
REVENUES:				
MDCH Grant	\$3,987,491	\$3,987,491 ¹	\$0	\$3,987,491
Local	\$375,883	\$219,242	\$78,827	\$298,069
TOTAL REVENUES	\$4,363,374	\$4,206,733	\$78,827	\$4,285,560
EXPENDITURES:				
Salary and Wages	\$1,984,838	\$2,015,701	\$24,867 ²	\$2,040,568
Fringe Benefits	\$992,419	\$1,081,277	\$12,624 ²	\$1,093,901
Contractual – Omni Care	\$168,300	\$155,699	\$0	\$155,699
- Hutzel Hospital	\$97,000	\$93,555	\$0	\$93,555
- Arab American Chaldean	\$336,000	\$244,055	\$23,945 ²	\$268,000
- Moms and Babes	\$99,000	\$96,450	\$10,043 ²	\$106,493
Travel	\$2,500	\$760	\$0	\$760
Supplies / Operating	\$55,000	\$61,877	\$0	\$61,877
Communications	\$2,750	\$1,983	\$0	\$1,983
Space Cost – Clinic	\$60,250	\$41,675	\$0	\$41,675
Other Expense	\$24,100	\$21,561	\$0	\$21,561
Agency Support Indirect Cost	\$541,217	\$392,140	\$7,348 ³	\$399,488
TOTAL EXPENDITURES	\$4,363,374	\$4,206,733	\$78,827	\$4,285,560

- ¹ Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.
- ² Expenditures Adjusted to General Ledger – Total of \$71,479 (Finding 2).
- ³ Recomputed Agency Support Indirect Cost Allocation to WIC (Finding 3).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Contract Management Deficiencies

The Health Department was not effective in managing their subcontract agreements for both FY 01/02 and 02/03.

Recommendation: Implement contract management policies and procedures that ensure:

1. timely execution of subcontract agreements;
2. subcontract terms agree with MDCH contracts and budgets; and
3. payments to subcontractors do not exceed budget limits.

Comments: The Department of Health and Wellness Promotion (DHWP) agrees with this finding.

Corrective Action: The DHWP designed and implemented new subcontract management controls, and a contract database and tracking process to monitor the timeliness of all contract oversight activity. Subcontract terms are now consistent with the MDCH WIC budget because any changes in contract amounts require amendments to both the subcontract and the MDCH WIC budget. The City Financial System will not allow payments in excess of the approved subcontract amount that is entered in the system, but each subcontract agreement is performance based, and therefore contract payments may be less than the subcontract budget.

Anticipated

Completion Date: Item 1 completed November 2005

Item 2 completed August 2004

Item 3 Completed July 2004

MDCH Response: No Comment

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Under-Reported Direct Program Costs

The Health Department under-reported the direct costs for the WIC Program in comparison to the general ledger and support documents for fiscal years 01/02 and 02/03.

Recommendation: Implement review procedures to ensure that actual total WIC costs and the funding sources are reported on the Financial Status Reports.

Comments: The DHWP agrees with this finding.

Corrective Action: The WIC program accountant performs a quarterly reconciliation to ensure the FSR agrees with the General Ledger. The Finance Manager verifies that the reconciliation is completed, reviews the direct costs and approves the FSR's quarterly.

**Anticipated
Completion Date:** Effective October, 2005

MDCH Response: No Comment

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: Inaccurate Indirect Cost Allocation

The Health Department under-reported indirect costs for the WIC program for fiscal years 01/02 and 02/03.

Recommendation: Implement review procedures to ensure that the allocation of indirect cost to WIC is computed using the correct Modified Total Direct Cost base.

Comments: The DHWP agrees with this finding.

Corrective Action: The WIC program accountant performs a quarterly reconciliation to ensure the accuracy of the direct and indirect cost allocations. The indirect cost allocation is based on Modified Total Direct Cost. The Finance Manager verifies that the reconciliation is completed quarterly, and that the Modified Total Direct Cost base is used.

Anticipated

Completion Date: Effective October 2005

MDCH Response: No comment