

# Audit Report

## InterCare Community Health Network WIC Program

October 1, 2003 – September 30, 2004



Office of Audit  
Quality Assurance and Review Section  
December 2006



JENNIFER M. GRANHOLM  
GOVERNOR

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

JANET OLSZEWSKI  
DIRECTOR

December 1, 2006

Velma Hendershott, CEO  
InterCare Community Health Network  
50 Industrial Park Drive  
Bangor, Michigan 49013

Dear Ms. Hendershott:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the InterCare Community Health Network WIC Program for the period October 1, 2003 through September 30, 2004.

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

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**

InterCare Community Health Network (“Network”) is organized as a not-for-profit agency, under the provisions of 501(c)(3) of the Internal Revenue Code. The Network’s Administrative Office is located in Bangor, Michigan. The Network operates under the legal supervision and control of its Board of Directors.

The Network operates community health centers located in Allegan, Berrien, Ottawa, Kent and Van Buren counties. Program services include: Medical, Dental, Prenatal & Obstetrical Services, Maternal and Infant Support Services, Breast and Cervical Cancer Control Program and the Women Infants and Children (WIC) Supplemental Food Program.

## **FUNDING METHODOLOGY**

The Network receives funding from various sources including the United States 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 Network’s effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Network’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 Network.

## SCOPE AND METHODOLOGY

We examined the Network's records and activities for the fiscal period October 1, 2003 to September 30, 2004. We performed our review procedures in September 2005. Our review procedures included the following:

- Reviewed the most recent InterCare Community Health Network 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 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 Requirements.
- Reviewed WIC equipment inventory and general Network 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 Network's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Network was generally effective in establishing and implementing internal controls over the WIC Program. However, we found an exception relating to unstamped void coupons (Finding 1).

**Finding**

**1. Unstamped Void Coupons**

The Network did not stamp several void coupons with the “Do Not Use” stamp.

In our sample review of coupon copies we noted several void coupons that were not properly stamped with the “Do Not Use” stamp.

The MDCH WIC Division manual, Section 8.01 – Coupon Maintenance, requires void coupons to be stamped with a “Do Not Use” stamp.

**Recommendation**

We recommend the Network improve procedures to ensure that void coupons are stamped with the “Do Not Use” stamp in accordance with MDCH WIC Division requirements.

**FINANCIAL REPORTING**

**Objective 2:** To assess the Network’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 Network 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 under reported WIC Program expenditures (Finding 2).

**Finding**

**2. Under Reported WIC Program Expenditures**

The Network under reported WIC expenditures in total by \$1,885.

In our reconciliation of reported expenditures to the general ledger, we noted that Salary was over reported by \$9,377, Fringe Benefits Expense was under reported by \$9,270 and Other Expense was under reported by \$1,992, with a net difference of \$1,885 under reported.

Per OMB Circular A-122, Attachment A, “To be allowable under an award, costs must meet the following general criteria...e. Be determined in accordance with generally accepted accounting principles (GAAP)...g. Be adequately documented.”

Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The adjustments increase program expenditures in total, but do not result in increased MDCH Grant funds due to the 15% line item deviation allowance provision in the grant contract.

**Recommendation**

We recommend the Network implement review procedures to ensure reported expenditures reconcile to the general ledger.

**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 Network.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2004, is \$1,360,803, but the Network was paid \$1,360,808. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and eligible costs. The \$5 overpayment is deemed immaterial and will not be collected.

**InterCare Community Health Network  
WIC Supplemental Food Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/03 - 9/30/04**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ELIGIBLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$1,363,430	\$1,360,808 <sup>1</sup>	(\$5 ) <sup>3</sup>	\$1,360,803
Local and Other Funds	\$0	\$2,700	\$1,890 <sup>3</sup>	\$4,590
<b>TOTAL REVENUES</b>	\$1,363,430	\$1,363,508	\$1,885	\$1,365,393
<b>EXPENDITURES:</b>				
Personal Services:				
Salary and Wages	\$947,825	\$870,516	(\$9,377) <sup>2</sup>	\$861,139
Fringe Benefits	\$172,030	\$211,965	\$9,270 <sup>2</sup>	\$221,235
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$39,604	\$49,513	\$0	\$49,513
Travel	\$19,200	\$19,129	\$0	\$19,129
Space, Communications & Other	\$184,771	\$212,385	\$1,992 <sup>2</sup>	\$214,377 <sup>3</sup>
Indirect Cost	\$0	\$0	\$0	\$0
<b>TOTAL EXPENDITURES</b>	\$1,363,430	\$1,363,508	\$1,885	\$1,365,393

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

<sup>2</sup> Adjusted to actual per General Ledger.

<sup>3</sup> The \$1,992 additional cost in "Other" is funded partially with \$102 in MDCH Grant funds, but the remaining \$1,890 is funded with local or other funds as it is in excess of the 15% line item deviation allowance. The \$107 reduced cost in "Personal Services" results in less MDCH Grant funds.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Unstamped Void Coupons

The Network did not stamp several void coupons with the “Do Not Use” stamp.

**Recommendation:** Improve procedures to ensure that void coupons are stamped with the “Do Not Use” stamp, in accordance with MDCH WIC Division requirements.

**Comments:** The Network agrees with the finding. A “VOID” stamp had been used instead of a “Do Not Use” stamp.

**Corrective Action:** The Network now uses “Do Not Use” stamps, and has added a review for its use in their compliance audit form.

### Anticipated

**Completion Date:** November 2006.

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Under Reported WIC Program Expenditures

The Network under reported WIC expenditures in total by \$1,885.

**Recommendation:** Implement review procedures to ensure reported expenditures reconcile to the general ledger.

**Comments:** The Network agrees with the finding.

**Corrective Action:** The Network will complete the FSR using contract year to date expense activity instead of the monthly activity report.

### Anticipated

**Completion Date:** October, 2006

**MDCH Response:** No comment.