

Audit Report

Jackson County Health Department
WIC Program

October 1, 2001 – September 30, 2002



Office of Audit
Quality Assurance and Review Section
January 2004



JENNIFER M. GRANHOLM
GOVERNOR

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

JANET OLSZEWSKI
DIRECTOR

January 6, 2004

Ronald Grimes, R.S., M.P.H.
Director/Health Officer
Jackson County Health Department
1697 Lansing Avenue
Jackson, Michigan 49202

Dear Mr. Grimes:

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, 2001 through September 30, 2002.

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, 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

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology	1
Purpose and Objectives	1
Scope and Methodology	2
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u>	2
<u>Financial Reporting</u>	
1. Agency Support Indirect Cost Rate Inaccurate	3
<u>MDCH Share of Costs and Balance Due</u>	4
Statement of MDCH Grant Program Revenues and Expenditures	5
Corrective Action Plan	6

DESCRIPTION OF AGENCY

The Jackson County Health Department (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. During fiscal year 2001/2002, services included: AIDS/HIV prevention; Children's Special Health Care Services (CSHCS); Immunizations; Sudden Infant Death Syndrome (SIDS); Women Infants and Children (WIC) Supplemental Food Program; Bioterrorism-incurred costs & planning; Maternal and Child outreach, enrollment, and coordination; food service sanitation; general communicable disease control; hearing screening; maternal and infant health; sexually transmitted disease control; vaccine handling; and vision screening.

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 fiscal period October 1, 2001 to September 30, 2002. We performed our review procedures in May 2003. Our review procedures included the following:

- Reviewed the most recent Jackson County 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 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 effective in establishing and implementing internal controls over the WIC Program. As a result of our review, no internal control exceptions were noted.

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 the Agency Support Indirect Cost Rate (Finding 1).

Finding

1. Agency Support Indirect Cost Rate Inaccurate

The Agency Support Indirect Cost Rate contained an error and an omission.

In our review of the Agency Support Indirect Cost Rate, we noted the following error and omission:

- A. The indirect cost used in the reported indirect rate was understated by \$7,506 as a result of being computed based on preliminary rather than final cost information, because it was the best information available at the time.
- B. The indirect cost used in the reported indirect rate was understated by the omission of the retirement and motor pool allocations totaling \$180,046.

Per Office of Management and Budget (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 and omissions in the indirect cost pool and indirect rate computation result in inaccurate overhead cost allocations to programs. This overhead cost allocation is very important in analyzing and reporting the correct total cost to operate each program.

We adjusted the Agency Support Indirect Cost pool and rate to determine the allowable indirect cost as defined in OMB Circular A-87. The net adjustment to correct the above error and omission resulted in an increase to the Agency Support Indirect Cost Pool of \$187,552, which resulted in an increase to the indirect rate to 29.65% from the reported 24.57%. For the WIC Program, the rate increase resulted in an additional indirect cost of \$18,117, which is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment does not affect the WIC grant funds since the grant funds were already fully spent.

Recommendation

We recommend that the Health Department implement review procedures to ensure that appropriate and final costs are included in the computation of the Agency Support Indirect Cost Rate.

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 \$411,750. 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.

**Jackson County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/01 - 9/30/02**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$411,750	\$411,750 ¹	\$0	\$411,750
Local Funds	\$29,691	\$58,405	\$18,117 ²	\$76,522
TOTAL REVENUES	\$441,441	\$470,155	\$18,117	\$488,272
EXPENDITURES:				
Salary and Wages	\$282,089	\$306,636	\$0	\$306,636
Fringe Benefits	\$50,086	\$50,231	\$0	\$50,231
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$10,300	\$4,770	\$0	\$4,770
Travel	\$350	\$192	\$0	\$192
Communications	\$1,300	\$532	\$0	\$532
County/City Central Services	\$0	\$0	\$0	\$0
Space Cost	\$12,000	\$12,000	\$0	\$12,000
Other Expense	\$4,930	\$8,112	\$0	\$8,112
Indirect Cost	\$80,386	\$87,682	\$18,117 ²	\$105,799
TOTAL EXPENDITURES	\$441,441	\$470,155	\$18,117	\$488,272

¹ Actual MDCH payments. MDCH funding was provided on a performance reimbursement basis.
² Recomputed Agency Support Indirect Cost Rate and Allocation to WIC (Finding 1)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Agency Support Indirect Cost Rate Inaccurate

The Agency Support Indirect Cost Rate contained an error and an omission.

Recommendation: Implement review procedures to ensure that appropriate and final costs are included in the computation of the Agency Support Indirect Cost Rate.

Comments: The Health Department agrees with the finding, and that the adjustment does not affect WIC grant funding. The Health Department also stated that computing the indirect cost rate based on two-year old data “will never accurately reflect current Agency Support costs at a time when county activities and procedures have changed.”

Corrective Action: The Health Department will make every effort to closely review the computation of the indirect cost rate for future years, and will use final costs in all cases where the information is available by the required filing dates for the Financial Status Reports. Also, the Health Department proposed to apply the recomputed rate for FYE 9/30/02 of 29.65%, to FYE 9/30/03 and FYE 9/30/04, if approved by MDCH.

Anticipated

Completion Date: Immediately

MDCH Response: We agree with the Health Department's planned corrective action, except for the proposal to apply the recomputed rate of 29.65% to FYE 9/30/03 and FYE 9/30/04. The actual indirect cost rate must be computed and applied each fiscal year. Each year stands alone. Also, with regard to the use of two-year old Central Service Cost Plan data, the Plan includes a roll-forward adjustment that adjusts for the effect of economic or procedural changes. We recommend that the Health Department review the roll-forward adjustment procedure with the Central Service Cost Plan consultant for more details.