

# Audit Report

## Barry–Eaton District Health Department

### WIC Program

October 1, 2009 – September 30, 2010



Office of Audit

Quality Assurance and Review Section

February 2012



RICK SNYDER  
GOVERNOR

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

OLGA DAZZO  
DIRECTOR

February 16, 2012

Stephen R. Tackitt, Health Officer  
Barry-Eaton District Health Department  
1033 Health Care Drive  
Charlotte, MI 48813

Dear Mr. Tackitt:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Barry-Eaton District Health Department WIC Program for the period October 1, 2009 through September 30, 2010.

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; Corrective Action Plans; and Comments and Recommendations. 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 where necessary. The Comments and Recommendations section includes areas where we believe there are opportunities for the agency to further strengthen internal controls or to increase operating efficiencies.

As noted in the report, the Health Department must re-file their FYE 2010 FSR with MDCH to properly report administration and division overhead expenditures, and pay MDCH \$19,695. The revised FSR and a check payable to the State of Michigan for \$19,695 should be sent to the following address by **March 16, 2012**:

Lisa Halverson, Manager  
Revenue Operations Section  
Accounting Division  
Michigan Department of Community Health  
P.O. Box 30437  
Lansing, MI 48909

Stephen R. Tackitt, Health Officer  
Barry-Eaton District Health Department  
February 16, 2012  
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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  
Lisa Halverson, Manager, Revenue Operations Section  
Michael Gribbin, Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Barry-Eaton District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Eaton County, and the administrative office is located in Charlotte, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of the counties of Barry and Eaton. The Health Department provides community health program services to the residents of these two counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, Family Planning, Breast and Cervical Cancer Control Program, Children's Special Health Care Services, Bioterrorism/Emergency Preparedness/Pandemic Flu, Medicaid Outreach, 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 fiscal period October 1, 2009 to September 30, 2010. Our review procedures included the following:

- Reviewed the most recent Eaton 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 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 WIC equipment inventory records.

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 found two internal control exceptions. One relates to periodic inventory verifications (Finding 1) and the other relates to administrative cost report (Finding 2). The administrative cost reporting issue is addressed in the financial reporting section.

#### **Finding**

##### **1. Lack of Periodic Inventory Verification**

The Health Department does not perform biennial equipment inventory verifications as required by OMB Circular A-87.

The Health Department's contract with MDCH (Part II, Section III, Part A) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). According to OMB Circular A-87, Appendix B, Section 11. h:

*Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are still in use.*

The Health Department's depreciation schedule is used to list the inventory of all equipment and it is updated when new equipment is purchased and when old equipment is disposed of. When new equipment is purchased, the Health Department will assign a tag number to it and will remove it when it is no longer in use. The Health Department has no procedure in place to verify if the equipment listed on the depreciation schedule is still in use. To ensure accountability over capital assets and compliance with Federal regulations, the Health Department must perform physical inventories of equipment purchases at least once every two years.

### **Recommendation**

We recommend that the Health Department implement a periodic equipment inventory verification to ensure that equipment items exist and are still in use.

## **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 its WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we identified one exception relating to administrative cost reporting (Finding 2).

### **Finding**

#### **2. Incorrect Administrative and Division Overhead Cost Reporting**

The Health Department misreported administration expenditures on the FSR, miscalculated the administrative cost allocation, and misreported division overhead on the FSR.

The Health Department's contract with MDCH (Part II, Section IV, Part D.) requires that Financial Status Reports (FSRs) be prepared in accordance with MDCH's FSR Instructions, and that they report total actual program expenditures. Additionally, the Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). Total actual program expenditures, according to OMB Circular A-87, consist of allowable direct costs, and an allocable portion of allowable indirect costs. With respect to indirect costs and central service cost allocation plans, OMB Circular A-87 states the following:

- i. Indirect costs include the indirect costs originating in each department or agency of the governmental unit carrying out Federal awards and the costs of central governmental services distributed through the central service cost allocation plan and **not otherwise treated as direct costs.** (Appendix E, Part A. 2.)*
- ii. Both the direct costs and the indirect costs **shall exclude capital expenditures and unallowable costs.** (Appendix E, Part C. 2. b.)*

- iii. Carry-forward adjustments of allocated central service costs...when the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be **carried forward and used as an adjustment to the fixed amounts established for a later year.** (Appendix C, Part G. 3.)*

A review of the FSR and supporting documentation revealed that the Health Department did not comply with the MDCH contract, FSR instructions, and OMB Circular A-87 requirements as follows:

**a. Administration Expenditures Misreported on FSR**

The Health Department reported County/City Central Services of \$465,694 and Total Direct Expenditures of \$1,626,285 for Administration on the FSR. The following errors and omissions were noted:

- A (\$70,041) “rollover” adjustment from the Eaton County Central Service Cost Allocation Plan was not properly excluded, so County/City Central Services and Total Direct Expenditures were overstated by this amount.
- Capital expenditures of \$42,595 were not separately identified on the FSR as required by the FSR Instructions.
- Revenues of \$22,097 related to the administration cost centers were not reported on the FSR as required.
- A bond principal payment of \$40,000 was not properly included as an Exclusion Item as required by the FSR Instructions.
- Allowable depreciation of \$24,456 was not included on the FSR as required by the FSR Instructions. It should be noted that a depreciation schedule was provided by the Health Department that included depreciation of \$51,119 for FYE 2010; however, this included depreciation for capital assets specifically related to grant programs and treated as direct costs to those programs. Only depreciation related to administrative assets is permissible.
- The amount of Administrative Overhead allocated to all appropriate program columns on the FSR was not shown as a credit or minus in the Administration column as required by the FSR Instructions.

**b. Miscalculated Administrative Cost Allocation**

The Health Department used \$1,626,285 Total Direct Expenditures less Revenues of \$22,097 in their Administrative Cost Allocation calculation. The Health Department did not factor the above noted items (“rollover” adjustment, capital expenditures, bond principal payment, and depreciation) into their Administrative Cost Allocation calculation as required by OMB Circular A-87. Additionally, a \$5,000 direct allocation from Administration to MICR Field Service on the FSR was not properly excluded from the indirect cost pool. After considering all of the above, the Health Department’s calculated indirect rate changed from 38.3% to 35.14%.

**c. Misreported Division Overhead and Administration Expenditures on FSR**

The Health Department reports both Agency Administration (b. above) and Division Overhead on the FSR. In total, the amount on the FSR for Agency Administration and

Division Overhead for the WIC Program (\$225,487) agreed with the Health Department's methodology and calculation. However, the individual amounts for Agency Administration (\$148,065) and Division Overhead (\$77,422) were not supported by a "documented, well-defined rationale and audit trail" as required by the FSR Instructions. The Administration Overhead Cost Rate was recorded as 40.8956708% on the FSR, which far exceeded the Health Department's calculated rate of 38.3%. Documentation was not available to support the amounts included on the FSR.

The correct administrative cost allocation resulted in a reduction of \$20,833 of Agency Administration and a reduction of \$2,013 of Division Overhead for the WIC Program. Adjustments are shown on the Statement of MDCH Grant Program Revenues and Expenditures. The total cost reduction of \$22,846 had no impact on MDCH Grant funding for the WIC Program due to the level of local funding used. However, a correction of the administrative cost allocation reduces MDCH grant funding for the following programs, which requires a payback to MDCH of \$19,695:

Immunization	\$8,390
Drinking Water	4,993
H1N1 Phase II	5,701
H1N1 Phase III	561
Michigan Colorectal Cancer	50
Total Due Back to MDCH	<u>\$19,695</u>

**Recommendation**

We recommend that the Health Department implement policies and procedures to ensure administrative cost allocations are properly calculated, and the proper amounts of administration and division overhead expenditures are reported on the FSR. Additionally, the Health Department must re-file their FYE 2010 FSR with MDCH to properly report administration and division overhead expenditures, and pay MDCH \$19,695.

**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 Health Department.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2010, is \$494,827. 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. However, MDCH's obligation for other grant programs declined \$19,695 as noted in Finding 2 above and this amount is due back to MDCH.

**Barry-Eaton District Health Department  
WIC Supplemental Food Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/09 - 9/30/10**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$494,827	\$494,827 <sup>1</sup>	\$0	\$494,827
Local and Other Funds	\$0	\$41,605	(\$22,846)	\$18,759
Local (Non-LPHO) – MSU Nutrition Match	\$48,810	\$13,221	\$0	\$13,221
<b>TOTAL REVENUES</b>	<b>\$543,637</b>	<b>\$549,653</b>	<b>(\$22,846)</b>	<b>\$526,807</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$246,324	\$258,309	\$0	\$258,309
Fringe Benefits	\$107,121	\$103,746	\$0	\$103,746
Supplies	\$6,250	\$3,822	\$0	\$3,822
Travel	\$10,540	\$9,679	\$0	\$9,679
Communications	\$0	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$1,700	\$1,110	\$0	\$1,110
Administration Indirect	\$142,526	\$148,065	(\$20,833) <sup>2</sup>	\$127,232
Division Indirect	\$81,676	\$77,422	(\$2,013) <sup>2</sup>	\$75,409
Less Medicaid Outreach	(\$52,500)	(\$52,500)	\$0	(\$52,500)
<b>TOTAL EXPENDITURES</b>	<b>\$543,637</b>	<b>\$549,653</b>	<b>(\$22,846)</b>	<b>\$526,807</b>

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.

<sup>2</sup> Adjust Administration and Division Overhead to correct amounts (Finding 2).

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Lack of Periodic Inventory Verification

The Health Department does not perform biennial equipment inventory verifications as required by OMB Circular A-87.

**Recommendation:** Implement a periodic equipment inventory verification to ensure that the equipment items exist and are still in use.

**Comments:** The Health Department agrees with this finding.

**Corrective Action:** The Barry-Eaton District Health Department will implement policies and procedures to perform a periodic inventory annually.

**Anticipated  
Completion Date:** Spring 2012

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** **Incorrect Administrative and Division Overhead Cost Reporting**

The Health Department misreported administration expenditures on the FSR, miscalculated the administrative cost allocation, and misreported division overhead on the FSR.

**Recommendation:** Implement policies and procedures to ensure administrative cost allocations are properly calculated, and the proper amounts of administration and division overhead expenditures are reported on the FSR. Additionally, the Health Department must re-file their FYE 2010 FSR with MDCH to properly report administration and division overhead expenditures, and pay MDCH \$19,695.

**Comments:** The Health Department agrees with this finding.

**Corrective Action:** The errors in overhead cost reporting have been identified and corrected, and the correct methodology will be used going forward. Barry-Eaton District Health Department will revise their FSR to the correct amounts and repay \$19,695 to the Michigan Department of Community Health.

**Anticipated Completion Date:** Immediately

**MDCH Response:** None

## Comments and Recommendations

### 1. Travel Vouchers Lacked Necessary Detail

The Health Department is required to comply with OMB Circular A-87. According to OMB Circular A-87, to be allowable, costs must be adequately documented. The Health Department's travel vouchers include mileage and supervisory approval. However, the travel vouchers do not include the destination and purpose of the travel. We recommend that the Health Department implement policies and procedures that require the employees to include the destination and purpose of the travel on travel vouchers to adequately document costs in accordance with OMB Circular A-87.

**Management's Response:** The Health Department agrees with this recommendation. These changes will be implemented starting 03/01/2012.

### 2. Fringe Benefit Allocation Percents Require More Frequent Updating

The Health Department is required to comply with OMB Circular A-87. According to OMB Circular A-87, fringe benefits must be equitably allocated to all related activities. The Health Department expenses fringe benefits to each department based on budgeted percentages for each program that are updated every 6 months based on work performed. We recommend the Health Department implement policies and procedures to ensure the fringe benefit allocation percentages are updated every 3 months to ensure equitable allocations.

**Management's Response:** The Health Department agrees with this recommendation. A plan is already in place to implement this recommendation by the 2012 fiscal year.

**3. Pay in Lieu of Insurance Misclassified**

The Health Department is required to comply with Generally Accepted Accounting Principles (GAAP). GAAP requires the classification of taxable payments to employees as salary and wages and not fringe benefits, and costs must be properly classified on the FSR. The Health Department gives the employees the opportunity to receive cash payments in lieu of health insurance coverage. These payments are incorrectly classified as fringe benefits on the FSR. We recommend the Health Department implement policies and procedures to ensure payments in lieu of insurance are properly classified as salaries and wages on the FSR.

**Management's Response:** The Health Department agrees with this recommendation. These changes will be implemented starting 03/01/2012.