

Audit Report

Calhoun County Health Department WIC Program

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review Section
January 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

January 23, 2013

James A. Rutherford, RS, MPA, Health Officer
Calhoun County Public Health Department
190 E. Michigan Avenue
Battle Creek, MI 49014

Dear Mr. Rutherford:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC Program for the period October 1, 2010 through September 30, 2011.

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; 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

Enclosure

cc: Stan Bien, Director, WIC Division
Pam Myers, Director, Office of Audit
Michael Gribbin, Auditor, Office of Audit

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DESCRIPTION OF AGENCY

The Calhoun 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 Calhoun County, and the administrative office is located in Battle Creek, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Calhoun County. The Health Department provides community health program services to the residents of Calhoun County. These services include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Children's Special Health Care Services, Tobacco Reduction, Medicaid Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, 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, 2010 to September 30, 2011. Our review procedures included the following:

- Reviewed the most recent Calhoun County Single Audit report for any WIC Program concerns.
- Reviewed the completed fiscal review 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. We, however, noted one exception regarding the filing of the FSR (Finding 1), and numerous financial reporting exceptions (Findings 2-6).

Finding

1. Final FSR Filed Past the Due Date

The Health Department filed their final FSR past the due date.

The Health Department's contract with MDCH (Part II, Section IV, Part I) states, "*The final total Contractor FSR is due December 15, after the agreement period end date. WIC financial data reporting and final FSR must be received by November 30.*"

The Health Department filed their FSR on January 17, 2012, well past the November 30 deadline. The Health Department also filed their 2010 Final FSR late.

Recommendation

We recommend the Health Department implement policies and procedures to ensure that the final FSR is filed on a timely basis according to contractual terms.

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 did not report their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted exceptions regarding the inclusion of non-WIC related items on the WIC FSR (Finding 2), the allocation of supplies expenses based on budget rather than actual (Finding 3), the lack of supporting documentation for communication and internet expenses (Finding 4), the lack of supporting documentation for administration and county central service allocation calculations (Finding 5), and the allocation of salaries based on predetermined percentages (Finding 6).

Finding

2. Non-WIC Related Travel Expensed to the WIC FSR

The Health Department expensed travel costs related to another program to the WIC Program.

Per the MDCH Grant Agreement, Part II, Section IV, D. Financial Status Report Submission, “*FSR’s must report total actual program expenditures regardless of the source of funds.*”

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section C. 1. b., all costs must “*be allocable to Federal awards under the provisions of 2 CFR Part 225*” in order to be allowable. Per OMB Circular A-87, Appendix A, 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 Health Department expensed two invoices to the WIC Program cost center which were intended for the nursing administration cost center. Nursing administration travel expenses for \$360 were expensed to the WIC Program. An adjustment is included on the attached Statement of MDCH Grant Program Revenues and Expenditures. This adjustment, however, will not impact MDCH funding since local funds in excess of this amount were used to fund the WIC Program.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all costs are allocated to the correct cost center.

Finding

3. Office and Medical Supplies Allocated Based on Budget

The Health Department allocates their supplies expense based on budget rather than actual benefits derived.

Per OMB Circular A-87, Appendix A, Section D, Composition of Cost, “*The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect costs.*” According to Section F, Indirect Cost,

Indirect costs are those incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted without effort disproportionate to the results achieved...Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

The Health Department initially expenses all supplies to the administration cost center. Then, the Health Department allocates the supplies expense to the individual programs based on a percentage of total budgets for supplies. For example, WIC is budgeted to receive 30% of all supplies expenses incurred by the Health Department regardless of benefits derived. A distribution based on budget does not result in an equitable result in consideration of relative benefits derived. If unable to readily assign supplies expenses to applicable cost centers, the costs may be placed in an indirect cost pool, but the cost pool must be distributed to benefitted cost objectives on a basis that will produce an equitable result in consideration of relative benefits derived.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all indirect costs are distributed on bases that will produce an equitable result in consideration of relative benefits derived.

Finding

4. No Support for the Communications and Internet Allocations

The Health Department did not document how they allocated the communication and internet expenses to the WIC Program.

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Sections C. 1. b. & j., all costs must “*be allocable to Federal awards under the provisions of 2 CFR Part 225*” and must “*be adequately documented*” in order to be allowable.

Per OMB Circular A-87, Appendix 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 County Central Office sends the Health Department a journal entry for communications and internet expenses. The County Central Office does not send the Health Department support for the communications and internet expenses nor does the Health Department request support for these expenses. Since communications and internet expenses are allowable and the local funding is enough to cover both, no financial adjustment will be made. However, the Health Department needs to maintain adequate supporting documentation, such as invoices and allocation schedules, to evidence allowability.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure adequate supporting documentation, such as invoices and allocation schedules, is maintained to evidence allowability of charges from the County.

Finding

5. Administration and County Central Service Allocation Calculations Not Documented

The Health Department did not document the calculations for the administration allocation or the county central service allocation, and appears to have underreported the expenses for most programs.

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Sections C. 1. b. & j., all costs must “be allocable to Federal awards under the provisions of 2 CFR Part 225” and must “be adequately documented” in order to be allowable.

Per OMB Circular A-87, Appendix 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 Health Department did not retain documentation on how the amounts for indirect administration expense or the county central service expense on the FSR were calculated. The Finance Supervisor went on an extended leave and his replacement did not know the Health Department’s process in calculating these expenses. A recalculation according to a typical methodology used by local public health departments showed a total understatement in reported indirect administration expense and county central serve expense on the FSR in the amount of \$9,745 for the WIC Program. This will not affect MDCH funding since the Health Department has already used all of their WIC Program funds.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all indirect expense calculations are properly documented and comply with applicable Federal cost principles.

Finding

6. Salaries Allocated Based On Predetermined Percentages

The Health Department allocates salaries based on predetermined percentages and not by actual time spent on each program that is supported by personnel activity reports as required by OMB Circular A-87.

OMB Circular A-87, Appendix B, subsection 8. h. (4) states:

Where employees work on multiple activities or cost objectives, a distribution of their salaries and wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

Subsection 8. h. (5) states:

Personnel activity reports or equivalent documentation must meet the following standards:

- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,*
- (b) They must account for the total activity for which each employee is compensated,*
- (c) They must be prepared at least monthly and must coincide with one or more pay periods, and*
- (d) They must be signed by the employee.*
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:*
 - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activities actually performed;*
 - (ii) At least quarterly, comparisons of actual costs to budgeted distribution based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the difference between budgeted and actual costs are less than ten percent; and*
 - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.*

According to the Fiscal Review Questionnaire (FRQ) completed by the Public Health Consultant, salaries are allocated based on a predetermined percentage with a reconciliation at the end of every quarter. Our review of timesheets showed the predetermined allocations to various business units, with occasional adjustments for what appeared to be for paid time off rather than adjustments for actual time worked on programs. Numerous requests for an explanation and evidence of the quarterly reconciliations went unanswered. Due to the lack of evidence that salary allocations are based on actual time spent on each program that are supported by personnel activity reports, we have concluded that the salary allocations are based on predetermined allocations which is a violation of OMB Circular A-87.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that employee time is allocated based on actual time spent on each program that is supported by personnel activity reports as required by OMB Circular A-87.

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, 2011, is \$745,823. 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.

**Calhoun County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$745,823	\$745,823 ¹	\$0	\$745,823
Local and Other Funds	\$62,157	\$64,493	\$6,879	\$71,372
Local Non-LPHO	\$10,300	\$0	\$0	\$0
TOTAL REVENUES	\$818,280	\$810,316	\$6,879	\$817,195
EXPENDITURES:				
Salary and Wages	\$411,577	\$420,121	\$0	\$420,121
Fringe Benefits	\$163,684	\$149,846	\$0	\$149,846
Equipment	\$0	\$0	\$0	\$0
Supplies	\$12,503	\$10,417	\$0	\$10,417
Travel	\$1,734	\$6,723	(\$360) ³	\$6,363
Communications	\$11,000	\$21,000	\$13,967 ²	\$34,967
Central Service Cost	\$25,521	\$23,308	\$0	\$23,308
Space Cost	\$19,681	\$19,834	\$0	\$19,834
Other Expense	\$23,271	\$11,528	(\$6,728) ²	\$4,800
Admin. - Indirect Cost	\$149,309	\$147,539	\$0	\$147,539
TOTAL EXPENDITURES	\$818,280	\$810,316	\$6,879	\$817,195

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
² Due to E-Grams Limitation.
³ Non-WIC Related Travel Expense (Finding 2).

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Final FSR Filed Past Due Date

The Health Department filed their final FSR past the due date.

Recommendation: Implement policies and procedures to ensure that the FSR is filed on a timely basis according to contractual terms.

Health Department

Comments: The Health Department had already begun an effort to submit FSRs in a timely manner at the time of the audit.

Corrective Action: It is the policy of the Health Department to submit all FSRs in a timely manner. Personnel are trained to complete all work requirements according to policy.

**Anticipated
Completion Date:** April 1, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Non-WIC Related Travel Expensed to the WIC FSR

The Health Department expensed travel costs related to another program to the WIC Program.

Recommendation: Implement policies and procedures to ensure that all costs are allocated to the correct cost center.

Health Department

Comments: The Health Department had already begun an effort to ensure all travel costs were distributed according to actual use. New policies to ensure that all costs are properly distributed were put into place with the hiring of a new Account Specialist.

Corrective Action: The Health Department will double check all requests for travel reimbursement to ensure that they are charged to the correct business unit.

Anticipated

Completion Date: June 1, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Office and Medical Supplies Allocated Based on Budget

The Health Department allocates their supplies expense based on budget rather than actual benefits derived.

Recommendation: Implement policies and procedures to ensure that all indirect costs are distributed on bases that will produce an equitable result in consideration of relative benefits derived.

Health Department

Comments: The Health Department had already begun examining the best way to assign costs in an equitable manner in the summer of 2012.

Corrective Action: The Health Department will ensure that all indirect costs are distributed on bases that will produce an equitable result in consideration of relative benefits derived.

Anticipated

Completion Date: October 1, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 4

Finding: **No Support for the Communications and Internet Allocations**

The Health Department did not document how they allocated the communication and internet expenses to the WIC Program.

Recommendation: Implement policies and procedures to ensure adequate supporting documentation, such as invoices and allocation schedules, is maintained to evidence allowability of charges from the County.

Health Department

Comments: The Health Department has had several meetings with the County Finance Department to ensure adequate documentation for charges to the Health Department budget.

Corrective Action: The Health Department will ensure adequate supporting documentation, such as invoices and allocation schedules, is maintained to evidence allowed charges from the County.

**Anticipated
Completion Date:** October 1, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 5

Page Reference: 5

Finding: Administration and County Central Service Allocation Calculations
Not Documented

The Health Department did not document the calculations for the administration allocation or the county central service allocation, and appears to have underreported the expenses for most programs.

Recommendation: Implement policies and procedures to ensure that all indirect expense calculations are properly documented and comply with applicable Federal cost principles.

Health Department

Comments: The Health Department now has a stable accounting staff to maintain proper documentation.

Corrective Action: The Health Department will ensure that all indirect expense calculations are properly documented and comply with applicable Federal cost principles.

**Anticipated
Completion Date:** October 1, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 6

Page Reference: 6

Finding: Salaries Allocated Based On Predetermined Percentages

The Health Department allocates salaries based on predetermined percentages and not by actual time spent on each program that is supported by personnel activity reports as required by OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure that employee time is allocated based on actual time spent on each program that is supported by personnel activity reports as required by OMB Circular A-87.

Health Department

Comments: The Health Department had already begun changing the method of salary allocation to actual time at the time of the audit.

Corrective Action: The Health Department will ensure that employee time is allocated based on actual time spent on each program that is supported by personnel activity reports as required by OMB Circular A-87.

Anticipated

Completion Date: October 1, 2012

MDCH Response: None