

# Audit Report

Detroit Department of Health and Wellness Promotion  
WIC Program

October 1, 2007 – September 30, 2008



Office of Audit  
Quality Assurance and Review Section  
August 2010



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August 27, 2010

Yvonne E. Anthony, PhD, M.H.A.  
Director and Public Health Officer  
Detroit Department of Health and Wellness Promotion  
1151 Taylor Street  
Detroit, Michigan 48202-1732

Dear Dr. Anthony:

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 period October 1, 2007 through September 30, 2008.

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.

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: William Ridella, Deputy Director, DHWP  
Audrey Smith, General Manager, DHWP  
Stan Bien, Director, WIC Division  
Pam Myers, Director, 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 Kiefer 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, General Communicable Disease, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Children's Special Health Care Services, Tobacco Reduction, Family Planning, Child Health, Childhood Lead, Medicaid Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, Nurse-Family Partnership Project, 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 period October 1, 2007 to September 30, 2008. 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 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 noted contract management deficiencies (Finding 1), and deficiencies in financial reporting that are addressed under that specific objective (Findings 2 and 3).

#### **Finding**

##### **1. Contract Management Deficiencies**

The City did not execute subcontracts timely, and the Health Department did not ensure timely receipt of subcontractor invoices.

The following deficiencies were noted with the administration of subcontracts:

**Untimely Execution of Subcontracts** - The City was late with fully executing subcontracts by 2 ½ to 7 months past the beginning date of the contract term.

Vital program operations were conducted for much of the year without an approved contract. The subcontracts state in Section 4.01 that the contract is not effective until authorized by resolution of the City Council and signed by the Purchasing Director. Contractors worked without pay until the contracts were fully executed. Per Section 4.02 payments can not be authorized until the contract is 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.

**Untimely Invoices from Subcontractors** – The Health Department did not ensure that contractors submitted timely invoices in accordance with the contracts. Exhibit B of the contract agreement states that the invoices must be received by the City not more than thirty (30) days after the close of each calendar month. All of the monthly invoices for all three contractors had invoice dates of from 1 ½ to 3 ½ months past the 30 day due date.

This results in untimely payment processing and untimely reporting by the Health Department to MDCH.

### **Recommendation**

We recommend that the Health Department develop and implement contract management policies and procedures that ensure timely execution of subcontracts and timely receipt of contractor invoices.

## **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 under-reported WIC program costs (Finding 2), and undocumented cost (Finding 3).

### **Finding**

#### **2. Under-Reported Program Costs**

The Health Department under-reported costs for the WIC Program.

The actual costs per the accounting records and support documents for travel, supplies and communications were under-reported by \$10,755. The Health Department reported amounts for these line items at 115% of the budget amount for the line item rather than the actual expense due to budget deviation limits in the contract. Per Part I, number 3. C. 1. of the grant agreement, budget deviations per line item are limited to \$10,000 or 15%, whichever is greater. In this case, the 15% deviation was reported which was less than the

\$10,000 limit for each line item. Regardless, total actual expenditures must be reported according to the contract.

In addition, Other Expense was under-reported by \$7,980. Also, most of the Division-level overhead costs for Personal Health Services and Health Center operations, as well as Maintenance of Buildings and Grounds are not allocated to the benefiting programs including WIC. These items were not specified in the budget.

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 2 CFR Part 225 (Office of Management and Budget 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 additional costs, except for Division-level overhead costs which could not be determined, are reflected in the attached Statement of MDCH Grant Program Revenues and Expenditures. These adjustments, net of adjustments from Finding 3, along with Division-level overhead could have been funded with the unused grant award of approximately \$400,000 if they had been timely identified and reported.

### **Recommendation**

We recommend that the Health Department implement review procedures to ensure that actual total WIC costs are reported.

### **Finding**

#### **3. Undocumented Costs**

The Health Department did not have documentation to support the reported infrastructure cost or a portion of the clinic space cost.

The Health Department rented WIC clinic space at two clinic sites. One of the sites was closed in the middle of the year and the Health Department erroneously reported (but did not pay) one quarter of rent, after the closure, of \$2,721.

Also, no documentation or payment could be found to support reported infrastructure expenditures for 2 computers and accessories, 2 desks, and 2 chairs totaling \$5,000.

Per 2 CFR Part 225 (Office of Management and Budget Circular A-87), Appendix A, General Principles for Determining Allowable Costs, Section C. 1.- Factors affecting allowability of costs, “To be allowable under Federal awards, costs must...j. be adequately documented.”

These undocumented expenditures are adjusted on the attached Statement of MDCH Grant Program Revenues and Expenditures. Due to the identification of additional allowable expenditures in Finding 2, these adjustments had no impact on MDCH WIC grant funds.

**Recommendation**

We recommend that the Health Department implement review procedures to ensure that all reported expenditures are properly documented.

**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, 2008, is \$4,318,197. MDCH can not reimburse the balance of \$11,014 after considering revenues and allowable expenditures as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures, since fiscal year 2007-08 has been closed by the Federal grantor.

**Detroit Department of Health & Wellness Promotion  
WIC Supplemental Food Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/07 - 9/30/08**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$4,722,800	\$4,318,197 <sup>1</sup>	\$0	\$4,318,197
Local	\$376,886	\$377	\$11,014	\$11,391
<b>TOTAL REVENUES</b>	\$5,099,686	\$4,318,574	\$11,014	\$4,329,588
<b>EXPENDITURES:</b>				
Salary and Wages	\$2,224,083	\$1,931,777	\$0	\$1,931,777
Fringe Benefits	\$1,445,654	\$1,272,756	\$0	\$1,272,756
Contractual - Omni Care	\$167,000	\$114,702	\$0	\$114,702
- Arab Am. Chaldean	\$446,400	\$421,608	\$0	\$421,608
- Moms & Babes Too	\$160,000	\$164,673	\$0	\$164,673
- Infrastructure	\$5,000	\$5,000	(\$5,000) <sup>3</sup>	\$0
Travel	\$6,000	\$6,900	\$90 <sup>2</sup>	\$6,990
Supplies / Operating	\$18,000	\$20,700	\$4,144 <sup>2</sup>	\$24,844
Communications	\$10,000	\$11,500	\$6,521 <sup>2</sup>	\$18,021
Space Cost - Clinic	\$60,900	\$40,020	(\$2,721) <sup>3</sup>	\$37,299
Other Expense	\$77,725	\$25,775	\$7,980 <sup>2</sup>	\$33,755
Agency Support Ind. Cost	\$566,968	\$303,163	\$0	\$303,163
Medicaid Outreach Alloc.	(\$88,044)	\$0	\$0	\$0
<b>TOTAL EXPENDITURES</b>	\$5,099,686	\$4,318,574	\$11,014	\$4,329,588

- 1** Actual MDCH payments provided on a performance reimbursement basis.  
**2** To adjust to actual per accounting records. See Finding 2  
**3** To adjust for undocumented cost. See Finding 3

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Contract Management Deficiencies

The City did not execute subcontracts timely, and the Health Department did not ensure timely receipt of subcontractor invoices.

**Recommendation:** Develop and implement contract management policies and procedures to ensure timely execution of subcontracts and timely receipt of contractor invoices.

**Comments:** The Department agrees except that the subcontractors are unable to provide invoices, which are based on caseload, until the MDCH WIC Closeout Report is complete. This report is only accurate 3 months after the reporting month's end. Therefore, obtaining invoices from contractors and paying these within 30 days is not possible.

**Corrective Action:** By October 1, 2010, using the Department's Fiduciary, the Southeastern Michigan Health Association, the WIC Program Manager, WIC Program Accountant and DHWP Contracts Liaison will have prepared and executed signed and approved contracts for all WIC subcontractors prior to the initiation of FY 2010/2011 subcontract activity and performance. The Deputy Director and General Manager of Community Services will provide support for ensuring the contracts are signed and executed before subcontractor activity begins. By September 1, 2010, the WIC Program Manager will revise the subcontractors' agreements to indicate that services are due 30 days after the monthly closeout period. By October 31, 2010, the WIC Program Manager and WIC Program Accountant will meet with the subcontractors and explain the process and requirement for submitting invoices based on the Closeout Report period.

**Anticipated  
Completion Date:** November 1, 2010 and throughout FY 2010/2011

**MDCH Response:** No comment.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Under-Reported Program Cost

The Health Department under-reported costs for the WIC Program.

**Recommendation:** Implement review procedures to ensure that actual total WIC costs are reported.

**Comments:** The Department agrees with the finding and recommendation.

**Corrective Action:** By September 1, 2010, the Deputy Director and Finance Manager will meet with the WIC Program Manager, WIC Program Accountant and General Manager of Community Health Services to review the WIC Budget and all expected program expenditures. By September 15, 2010, the WIC Program Accountant, WIC Program Manager, and Finance Manager will prepare a monthly WIC Program expenditures monitoring tool for tracking and documenting all actual monthly program expenditures. Beginning with October 2010, within 20 days of the last day of the month, the WIC Program Accountant and WIC Program Manager will meet to review the monthly actual expenditures and ensure that the actual expenditures are reconciled between the budget and DRMS; the city's financial reporting system. The meetings will be documented for the record. Beginning in FY 2010/2011, the Finance Manager will monitor and document that the total WIC Program expenditures are properly maintained, recorded, and captured in DRMS. The Finance Manager will document the monitoring and report results to the Deputy Director, General Manager of Community Health Services, and WIC Program Manager quarterly.

**Anticipated  
Completion Date:** November 1, 2010 and throughout FY 2010/2011

**MDCH Response:** No Comment.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Undocumented Costs

The Health Department did not have documentation to support the reported infrastructure cost or a portion of the clinic space cost.

**Recommendation:** Implement review procedures to ensure that all reported expenditures are properly documented.

**Comments:** The Department agrees with the finding and recommendation.

**Corrective Action:** By September 1, 2010, the Deputy Director and Finance Manager will meet with the WIC Program Manager, WIC Program Accountant and General Manager of Community Health Services to review the WIC Budget and all expected program expenditures. By September 15, 2010, the WIC Program Accountant, WIC Program Manager, and Finance Manager will prepare a monthly WIC Program expenditures monitoring tool for tracking and documenting all actual monthly program expenditures. Beginning with October 2010, within 20 days of the last day of the month, the WIC Program Accountant and WIC Program Manager will meet to review the monthly actual expenditures and ensure that the actual expenditures are reconciled between the budget and DRMS; the city's financial reporting system. The meetings will be documented for the record. Beginning in FY 2010/2011, the Finance Manager will monitor and document that the total WIC Program expenditures are properly maintained, recorded, and captured in DRMS. The Finance Manager will document the monitoring and report results to the Deputy Director, General Manager of Community Health Services, and WIC Program Manager quarterly.

**Anticipated  
Completion Date:** November 1, 2010 and throughout FY 2010/2011

**MDCH Response:** No Comment.