

# Audit Report

## **Ionia County Health Department WIC Program**

October 1, 2011 – September 30, 2012



Office of Audit  
Quality Assurance and Review Section  
December 2013



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GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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JAMES K. HAVEMAN  
DIRECTOR

December 13, 2013

Ken Bowen, Health Officer  
Ionia County Health Department  
175 E. Adams St.  
Ionia, MI 48846

Dear Mr. Bowen:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC Program for the period October 1, 2011 through September 30, 2012.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of MDCH Grant Program Revenues and Expenditures; and Corrective Action Plans. The conclusions and findings 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.

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: Pam Myers, Director, Office of Audit  
Stan Bien, Director, WIC Program  
Mike Gribbin, Senior Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Ionia 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 Ionia County, and the administrative office is located in Ionia, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Ionia County. The Health Department provides community health program services to the residents of Ionia 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, Children's Special Health Care Services, Medicaid Outreach, Maternal and Infant Health, 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, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Ionia County Single Audit report for any WIC Program concerns.
- Reviewed the completed 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 effective in establishing and implementing internal controls over the WIC Program. 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 3 exceptions: leave time allocations (Finding #1), County Central Service cost allocations (Finding #2), and space cost allocations (Finding #3).

## **Finding**

### **1. Leave Time Not Equitably Allocated (Repeat)**

The Health Department did not properly allocate employee leave time to the WIC Program.

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). For costs to be allowable under Federal awards, costs must be allocated in accordance with relative benefits received, and must conform to any limitations or exclusions set forth in OMB Circular A-87. According to OMB Circular A-87, Appendix B, Section 8.d.:

*(2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: they are provided under established written leave policies; **the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit.***

The Health Department allocates leave time (personal time, vacation, holiday, floating holiday, and funeral leave) for each employee based on a budgeted full time equivalent (FTE) percentage that is based on the anticipated amount of time they are expected to work on each Health Department program during the upcoming year. Leave hours are multiplied by the budgeted FTE percentage to allocate costs to each Health Department program. The Health Department computes these percentages once a year. Once they are calculated, they apply the percentages in the following fiscal year. In order for the Health Department to ensure that leave time is allocated equitably, they should analyze and update these percentages at least once every quarter based on actual time worked. In response to the FYE 2010 MDCH audit, management agreed to update the percentage allocations of leave time quarterly.

## **Recommendation**

We again recommend that the Health Department implement policies and procedures to ensure that allocation percentages are updated at least quarterly based on actual time worked so leave time is equitably allocated to all benefitting programs.

## **Finding**

### **2. County Central Service Costs Not Equitably Allocated**

The Health Department allocates County Central Service (CCS) costs based on a percentage of budgeted FTEs.

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). For costs to be allowable under Federal

awards, costs must be allocable under the provisions of 2 CFR Part 225. According to 2 CFR Part 225, 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 allocates CCS costs based on a percentage of budgeted FTEs for each program. In order for the Health Department to ensure that costs are equitably allocated, the allocations should be based on actual activity rather than budgeted FTEs.

We recalculated WIC and WIC Breastfeeding's CCS expense using actual salaries and fringes as the distribution base. We noted a \$327 understatement for WIC and a \$3,477 overstatement for WIC Breastfeeding. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures. However, these adjustments will not affect MDCH grant funding. The Health Department used all of their MDCH funding for WIC and WIC Breastfeeding has enough local funding to cover the overstatement.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that all overhead expenses are allocated based on the relative benefits received as required by OMB Circular A-87.

### **Finding**

#### **3. Reported Space Cost Incorrectly Includes Bond Principal Payments**

The Health Department's reported space cost incorrectly includes bond principal payments rather than allowed depreciation or an allowed use allowance.

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). OMB Circular A-87 establishes the principles and standards for determining allowable costs for Federal awards. Appendix B, Section 11. *Depreciation and use allowances* provides for the means of recovering the cost of fixed assets such as buildings. Section 11 states the following with respect to depreciation and use allowances:

*a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.*

In 1994, the County issued bonds to raise money for the Public Health Building. In 2003, the bonds were called and reissued with a final maturity of June 1, 2013. Assuming the final

principal and interest payment was made in June 2013 as the Bond Debt Service schedule shows, the County paid the bonds off over a 20 year period.

For the audit period (FYE 2012), the County charged the Health Department for the bond principal and interest payments, and service fees; and these charges were spread to benefitting programs according to staff FTEs and reported as space cost on FSRs. We assume that the County charged the Health Department for the bond principal and interest payments, and service fees over the 20-year life of the bonds, and these charges were spread to benefitting programs and reported as space cost on FSRs. Bond principal payments, however, are not an allowable cost under the provisions of OMB Circular A-87. Rather, the cost of the building should have been allocated by depreciation or by a use allowance to periods benefitting from asset use. In this case, it appears that a 50-year useful life has been established based on a depreciation schedule provided by the County. Accordingly, the Health Department has inappropriately accelerated the charging of the cost of the building to grants over a 20-year period rather than a 50-year period.

The calculated overcharges for FYE 2012 were \$8,585 for WIC and \$1,981 for WIC Breastfeeding. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures. The adjustments were less than the amount of local funds used to fund the programs so there is no impact on MDCH funds.

Since the bond was fully paid in FYE 2013 and the full acquisition cost was fully recovered with the reporting of the final bond principal payment, no further costs relating to the Public Health Building other than actual costs of maintenance, utilities and improvements should be reported on the FSR to MDCH beginning in FYE 2014.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that the cost of fixed assets is recovered by allocating allowable depreciation expense or an allowable use allowance over the life of the asset rather than allocating bond principal payments. Additionally, we recommend that the Health Department provide an assurance to MDCH that no further costs relating to the Public Health Building other than actual costs of maintenance, utilities and improvements will be reported on the FSR to MDCH beginning in FYE 2014.

## **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 and WIC Breastfeeding Program for fiscal year ended September 30, 2012 is \$292,516 and \$39,000, respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC or WIC Breastfeeding grant program funding.

**Ionia County Health Department**  
**WIC Supplemental Food Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/11 - 9/30/12**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$292,516	\$292,516 <sup>1</sup>	\$0	\$292,516
Local Funds and Other Funds	\$13,391	\$12,132	(\$8,258)	\$3,874
<b>TOTAL REVENUES</b>	<b>\$305,907</b>	<b>\$304,648</b>	<b>(\$8,258)</b>	<b>\$296,390</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$147,322	\$140,447	\$0	\$140,447
Fringe Benefits	\$50,929	\$55,150	\$0	\$55,150
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$18,629	\$10,730	\$0	\$10,730
Travel	\$500	\$614	\$0	\$614
Communications	\$500	\$1,381	\$0	\$1,381
Space Cost	\$12,736	\$13,126	(\$8,585) <sup>2</sup>	\$4,541
Other Expense	\$4,550	\$1,318	\$0	\$1,318
County/City Central Services	\$33,708	\$41,938	\$327 <sup>3</sup>	\$42,265
Admin. - Indirect Cost	\$37,033	\$39,944	\$0	\$39,944
<b>TOTAL EXPENDITURES</b>	<b>\$305,907</b>	<b>\$304,648</b>	<b>(\$8,258)</b>	<b>\$296,390</b>

- <sup>1</sup> Actual MDCH payments.  
<sup>2</sup> Unallowable Bond Principal Payments (Finding #3)  
<sup>3</sup> Understated County Central Service Cost (Finding #2)

**Ionia County Health Department**  
**WIC Breastfeeding/Peer Counselor Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/11 - 9/30/12**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$39,000	\$39,000 <sup>1</sup>	\$0	\$39,000
Local Funds and Other Funds	\$14,501	\$18,464	(\$5,458)	\$13,006
<b>TOTAL REVENUES</b>	<b>\$53,501</b>	<b>\$57,464</b>	<b>(\$5,458)</b>	<b>\$52,006</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$26,664	\$20,923	\$0	\$20,923
Fringe Benefits	\$10,129	\$14,061	\$0	\$14,061
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$1,404	\$170	\$0	\$170
Travel	\$500	\$345	\$0	\$345
Communications	\$200	\$487	\$0	\$487
Space Cost	\$3,100	\$3,029	(\$1,981) <sup>2</sup>	\$1,048
Other Expense	\$624	\$269	\$0	\$269
County/City Central Services	\$6,292	\$11,036	(\$3,477) <sup>3</sup>	\$7,559
Admin. - Indirect Cost	\$4,588	\$7,144	\$0	\$7,144
<b>TOTAL EXPENDITURES</b>	<b>\$53,501</b>	<b>\$57,464</b>	<b>(\$5,458)</b>	<b>\$52,006</b>

- <sup>1</sup> Actual MDCH payments.  
<sup>2</sup> Unallowable Bond Principal Payments (Finding #3)  
<sup>3</sup> Overstated County Central Service Cost (Finding #2).

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Leave Time Not Equitably Allocated (Repeat)

The Health Department did not properly allocate employee leave time to the WIC Program.

**Recommendation:** Implement policies and procedures to ensure that allocation percentages are updated at least quarterly based on actual time worked so leave time is equitably allocated to all benefitting programs.

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

**Corrective Action:** The Health Department has a new report to track hours actually worked by employee that will be updated bi-weekly, after each payroll. We will update the percentages used to allocate leave time monthly.

**Anticipated  
Completion Date:** 12/06/2013

**MDCH Response:** None.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** County Central Service Costs Not Equitably Allocated

The Health Department allocates County Central Service (CCS) costs based on a percentage of budgeted FTEs.

**Recommendation:** Implement policies and procedures to ensure that all overhead expenses are allocated based on the relative benefits received as required by OMB Circular A-87.

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

**Corrective Action:** Going forward, the Health Department will allocate County Central Services based on actual Salaries and Fringes, rather than by budgeted FTEs.

**Anticipated  
Completion Date:** 01/01/2014

**MDCH Response:** None.

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Reported Space Cost Incorrectly Includes Bond Principal Payments

The Health Department's reported space cost incorrectly includes bond principal payments rather than allowed depreciation or an allowed use allowance.

**Recommendation:** Implement policies and procedures to ensure that the cost of fixed assets is recovered by allocating allowable depreciation expense or an allowable use allowance over the life of the asset rather than allocating bond principal payments. Additionally, provide MDCH an assurance that no further costs relating to the Public Health Building other than actual costs of maintenance, utilities and improvements will be reported on the FSR to MDCH beginning in FYE 2014.

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

**Corrective Action:** The Health Department will not charge rent or space cost to any program going forward. Rent was already charged in 2013, and was included on our 2013 final FSRs but will not be charged in 2014.

**Anticipated  
Completion Date:** 01/01/2014

**MDCH Response:** None.