

Audit Report

Livingston County Health Department WIC Program

October 1, 2009 – September 30, 2010



Office of Audit
Quality Assurance and Review Section
April 2012



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
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April 19, 2012

Ted Westmeier, R.S., M.P.H.
Health Officer
Livingston County Health Department
2300 East Grand River, Suite #102
Howell, Michigan 48843-7578

Dear Mr. Westmeier:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Livingston County 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; and Corrective Action Plans. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans include the agency's response to the Preliminary Analysis, and the Office of Audit's response to those comments where necessary.

As noted in the report (Findings 2 through 6), the Health Department must re-file their FYE 2010 FSR with **MDCH Accounting** to properly report expenditures for all MDCH-funded programs, and pay MDCH \$59,306. The revised FSR and a check payable to the State of Michigan for \$59,306 should be sent to the following address by **May 21, 2012**:

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

Ted Westmeier, R.S., M.P.H., Health Officer
Livingston County Health Department
April 19, 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
Mary MacQueen, Manager, Public Health Emergency Preparedness
Lisa Halverson, Manager, Revenue Operations Section
Michael Gribbin, Auditor, Office of Audit
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DESCRIPTION OF AGENCY

The Livingston 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 Livingston County, and the administrative office is located in Howell, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Livingston County. The Health Department provides community health program services to the residents of Livingston County. 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, Childhood Lead Prevention, Children's Special Health Care Services, Maternal and Child Health, Public Health 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, 2009 to September 30, 2010. Our review procedures included the following:

- Reviewed the most recent Livingston 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 adherence to policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed WIC equipment inventory.

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 not effective in establishing and implementing internal controls over the financial reporting component of the WIC Program. The Health Department's financial management system was inadequate (Finding 1) as shown by the several financial reporting exceptions that are addressed in the Financial Reporting section (Findings 2 – 6).

Finding

1. Inadequate Financial Management System

The Health Department's financial management system did not ensure accurate and complete disclosure of financial results, the maintenance of accounting records to adequately identify the use of grant funds, and the effective control and accountability of grant funds.

The Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, contained in the Code of Federal Regulations, require the Health Department's financial management system to meet the following standards:

1. Financial reporting. Accurate, current, and complete disclosure of the financial results of financially-assisted activities must be made in accordance with the financial reporting requirements of the grant.

2. Accounting records. Grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities.
3. Internal control. Effective control and accountability must be maintained for all grant cash, real and personal property, and other assets. Grantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

Through our audit procedures, we determined that every line item on the WIC Program FSR was incorrect. Amounts reported on the FSR did not agree with the Health Department's general ledger, wages were not allocated properly, agency support costs were overstated, county central service costs were misallocated, and nursing administration costs were misallocated. These exceptions were not limited to the WIC Program. In fact, the exceptions exist in most every other program reported on the Health Department's FSR with MDCH.

In an effort to accurately determine the financial results for the WIC Program and any impact on other MDCH-funded programs, we provided the Health Department an opportunity to amend the complete FSR. We received an amended FSR in February 2012 that showed revised salary allocations, and revised indirect cost allocations for most programs. We reviewed the revisions and various supporting documentation, and concluded that the revisions were reasonably supported. However, revisions were not made to ensure reported amounts agree with the general ledger, and the proper allocations of county central service costs and nursing administration costs.

An adequate internal control system over financial reporting provides reasonable assurance that reports of Federal awards include all activity of the reporting period, are supported by underlying accounting records, and are fairly presented in accordance with program requirements. The Health Department's internal control system over financial reporting did not provide the requisite assurance.

The Health Department needs to evaluate current processes, and implement changes to ensure an adequate financial management system is in place to assure accurate reporting. The Health Department should consider the following characteristics that are common in an effective internal control system over financial reporting as described in the Office of Management and Budget Circular A-133 Compliance Supplement:

- Persons preparing, reviewing, and approving reports possess the required knowledge, skills, and abilities.
- Appropriate assignment of responsibility and delegation of authority for reporting decisions.
- Mechanisms exist to identify risks of faulty reporting caused by such items as lack of current knowledge of, inconsistent application of, or carelessness or disregard for standards and reporting requirements of Federal awards.
- Identification of underlying source data or analysis that may not be reliable.
- Written policy exists that establishes responsibility and provides the procedures for reporting.
- The general ledger is the basis for the reports.

- Supervisory review of reports performed to assure accuracy and completeness of data included in the reports.
- Periodic comparison of reports to supporting records.

Recommendation

We recommend that the Health Department evaluate their financial management system, and implement necessary changes to ensure adequate controls over financial reporting to provide reasonable assurance that reports of Federal awards include all activity of the reporting period, are supported by underlying accounting records, and are fairly presented in accordance with program requirements.

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 its WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We identified the following exceptions: the financial status report (FSR) did not agree with the general ledger (Finding 2), the wage allocation methodology did not comply with Federal requirements (Finding 3), agency support costs were overstated (Finding 4), county central service costs were misallocated (Finding 5), and nursing administration costs were misallocated (Finding 6).

Finding

2. Expenditures Reported on FSR Not in Agreement with Final General Ledger

The Health Department did not report accurate expenditures on the final FSR for FYE 2010 for the WIC Program and most other MDCH-funded programs.

The Health Department’s contract with MDCH (Part II, Section IV., Part D.) requires that the: *“FSR’s must report total actual expenditures regardless of the source of funds.”*

The Health Department incorrectly reported every WIC Program direct expenditure line item on the FSR resulting in an understatement of total direct expenditures of \$69,156. The reason the FSR was not reported accurately was because the Health Department reported their final FSR expenditures before any accounting adjustments were made. This error also affected the Health Department’s Indirect Cost Rate. Both the indirect cost pool and distribution base were understated. Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. Since MDCH grant funds were already fully expended, the increase in allowable expenditures had no impact on MDCH grant funds.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all expenditures are accurately reported on the FSR. Additionally, we recommend that the Health Department file an amended FSR with MDCH that includes accurate expenditures for the WIC Program, all other MDCH programs, and Agency Support so that the appropriate funding adjustments may be made.

Finding

3. Non-Compliant Wage Allocation Methodology

The Health Department did not properly allocate wages on the final FSR for FYE 2010 for the WIC Program and most other MDCH-funded programs.

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 8.:

- a. *Compensation for personnel services...are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR 225, and that the total compensation for individual employees...(3) Is determined and supported as provided in subsection h...*
- h. *Support of Salaries and wages...*
 - (4) *Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*
 - (a) *More than one Federal award...*
 - (5) *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 activity actually performed;*
 - (ii) *At least quarterly, comparisons of actual costs to budgeted distributions 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 differences between budgeted and actual costs are less than ten percent.

The Health Department maintains biweekly personnel activity reports along with quarterly personnel activity reports. The biweekly personnel activity report shows an employee's time spent on each Health Department Program. After two months, the Health Department determines a percentage of time spent on each Health Department Program for each employee by adding together the hours accumulated on the biweekly personnel activity report and dividing those hours by total hours worked for each Health Department Program. The Health Department assumes that an employee's time will stay constant for the third month of the quarter so the third month is assigned the same percentage as the percentage that results from the two-month average. From this information, a quarterly personnel activity report is created. The quarterly personnel activity report summarizes every employee's time allocation percentage to each Health Department Program for that specific quarter. The Health Department then adds the percentages for each Health Department Program and divides by the total to determine each Health Department Program's wage allocation percentage. The wage allocation percentages are applied to the agency-wide salaries and wages to allocate wages to each program.

The Health Department's methodology of allocating wages to programs does not comply with OMB Circular A-87. To be allowable, compensation for personnel services charged to an award must be based on **actual costs of individual employees that are supported by personnel activity reports**. The Health Department's allocations do not represent actual costs of individual employees that are supported by personnel activity reports. Rather, the Health Department's allocations to programs represent a distribution of every employee's wages that work in the Health Department, and the required adjustment to actual is not performed.

Subsequent to our on-site field work, the Health Department prepared an amended FSR that purportedly shows actual costs of individual employees working on the WIC Program and other MDCH-funded programs. The adjustments also impacted the indirect cost distribution which is further addressed in Finding #3. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. Due to the level of local funding, the adjustment had no impact on MDCH funding.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that wages are allocated in accordance with OMB Circular A-87. Additionally, we recommend that the Health Department file an amended FSR with MDCH that includes accurate wage allocations for the WIC Program and all other MDCH programs, and accurate indirect cost distributions so that the appropriate funding adjustments may be made.

Finding

4. Overstated Agency Support Costs

The Health Department overstated agency support costs on the final FSR for FYE 2010 by not removing applicable credits, which resulted in an inflated administrative cost rate and over reported expenditures for the WIC Program and most other MDCH-funded programs.

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 states the following with respect to the composition of cost at Appendix A, Section D.:

- 1. Total 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, less applicable credits.***

To be allowable under Federal awards, costs must "be the net of all applicable credits" according to Appendix A, Section C. 1. i. of OMB Circular A-87. "Applicable credits" is defined as follows in Appendix A, Section C. 4. of OMB Circular A-87:

- a. Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs. Examples of such transactions are: Purchase discounts, rebates or allowances, recoveries or indemnities on losses, insurance refunds or rebates, and adjustments of overpayments or erroneous charges. To the extent that such credits accruing to or received by the governmental unit relate to allowable costs, they shall be credited to the Federal award either as a cost reduction or cash refund, as appropriate.*

The Livingston County Health Department's Medical Director and Health Officer provide services to the Jackson County Health Department (JCHD) as agreed in two separate Services Agreements. Under the Services Agreements, JCHD pays the Livingston County Health Department 50% of all personnel costs for the Health Officer, and \$5,000 per month for the Medical Director. For services from October 1, 2009 through September 30, 2010, JCHD paid Livingston County Health Department \$131,489. However, those receipts were not credited as a cost reduction on Livingston County Health Department's financial status report (FSR). Rather, the full personnel costs of the Medical Director and Health Officer were recorded as expenditures on the FSR and spread to all programs. We were told that the reimbursements were later spread to the programs as revenue. However, an appropriate distribution of this revenue was not evident from our review of the FSR. Several programs had a distribution of these agency support costs with no (or very little) revenue other than from MDCH. Accordingly, it does not appear the revenue was properly credited to programs. Regardless, the reported costs must be reduced by these applicable credits according to contract and Federal regulation requirements.

After removing the \$131,489 in applicable credits from the agency support cost pool, and other adjustments as a result of Findings 2 and 3, the administrative cost rate declined from the reported 13.98% to 12.02%. This resulted in a reduction of \$10,866 in allowable WIC costs. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. Due to the level of local funding for the WIC Program, there is no impact on MDCH funding. However, the reduced administrative cost rate combined with the wage allocation revision results in a reduction of MDCH's obligation by \$59,306 for the H1N1 Phase III Program.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that costs included in the agency support cost pool are appropriately reduced by applicable credits. Additionally, we recommend that the Health Department file an amended FSR with MDCH that includes the correct administrative cost rate of 12.02% so that the appropriate funding adjustments may be made.

Finding

5. County Central Service Costs Misallocated

The Health Department did not properly allocate County Central Service Costs which resulted in over reported expenditures for the WIC Program and most other MDCH-funded programs on the final FSR for FYE 2010.

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 to Federal awards under the provisions of 2 CFR Part 225. According to Appendix A of 2 CFR Part 225:

- C.3.a. 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.*
- C.3.b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.*
- F.1. 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 County Central Service Costs are allocated to the Health Department's programs based on full time equivalent (FTE) counts of each benefitting program. The Health Department, however, did not include the Bioterrorism and City Readiness FTE counts in the allocation base resulting in an inequitable allocation base and an inequitable allocation. The reason given by the Health Department for this was that due to the limited funding for these programs an allocation was not made to these programs. By including these programs' FTEs in the FTE count and

allocating an appropriate share of County Central Service Costs to these programs, the WIC Program's share of County Central Service Costs decreased \$1,805. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. Due to the level of local funding, this adjustment had no impact on MDCH funding.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that the County Central Service Cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received. Additionally, we recommend that the Health Department file an amended FSR with MDCH that includes the correct allocation for County Central Service Costs so that the appropriate funding adjustments may be made.

Finding

6. Nursing Administration Allocation Error

The Health Department did not have adequate documentation to support the Nursing Administration Allocation Rate that was utilized for the WIC Program FSR for FYE 2010.

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 cost 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 A, Section C.1., costs must be adequately documented to be allowable.

The Health Department's Nursing Administration costs that have been incurred for a common or joint purpose benefitting more than one cost objective are allocated to the Health Department's programs based on FTE counts of each benefitting program. The Health Department provided documentation to support a Nursing Administration allocation rate of 23.38% for the WIC Program. However, the Health Department does not have documentation to support the allocation rate of 24.55% that was used on the FSR for the WIC Program. Since the Health Department was able to provide documentation to support a Nursing Administration allocation rate of 23.38% for the WIC Program, this is the rate that should have been used on the FSR. When taking into consideration the supported rate, and the correct cost pool (adjusted per Findings 2, 4, and 5), the WIC Program's Nursing Administration Costs were understated by \$2,387. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that the Nursing Administration cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received. Additionally, we recommend that the Health Department file an amended FSR with MDCH that

includes the correct cost pool and allocation for Nursing Administration, since the cost pool included incorrect amounts (Finding 2), incorrect Agency Support Costs were allocated to Nursing Administration (Finding 4), and incorrect County Central Service Costs were allocated to Nursing Administration (Finding 5) so that the appropriate funding adjustments may be made.

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, 2010 is \$277,935. 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. The reduced administrative cost rate combined with an acceptable wage allocation methodology does, however, result in a reduction of MDCH's obligation by \$59,306 for the H1N1 Phase III Program, which is due back to MDCH.

**Livingston County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/09 – 9/30/10**

	BUDGETED	REPORTED		GENERAL LEDGER ADJUSTMENT		AUDIT ADJUSTMENT		ALLOWABLE
REVENUES:								
MDCH Grant	\$277,935	\$277,935	1	\$0		\$0		\$277,935
Local Funds - Other	\$104,366	\$56,044		\$77,650	2	(\$21,109)		\$112,585
TOTAL REVENUES	\$382,301	\$333,979		\$77,650		(\$21,109)		\$390,520
EXPENDITURES:								
Salary & Wages	\$160,770	\$149,179		\$25,048	2	(\$10,825)	3	\$163,402
Fringe Benefits	\$57,877	\$58,167		\$32,518	2	\$0		\$90,685
Equipment	\$0	\$0		\$0		\$0		\$0
Contractual	\$0	\$0		\$0		\$0		\$0
Supplies	\$4,500	\$5,309		\$216	2	\$0		\$5,525
Travel	\$1,075	\$882		\$270	2	\$0		\$1,152
Communications	\$4,300	\$2,618		\$610	2	\$0		\$3,228
Space Cost	\$14,494	\$10,190		\$2,054	2	\$0		\$12,244
Other Expense	\$22,616	\$14,608		\$8,440	2	\$0		\$23,048
Indirect Cost	\$48,102	\$28,997		\$8,494	2	(\$10,866)	4	\$26,625
County/City Central Services	\$22,980	\$25,636		\$0		(\$1,805)	5	\$23,831
Nursing Admin.	\$45,587	\$38,393		\$0		\$2,387	6	\$40,780
TOTAL EXPENDITURES	\$382,301	\$333,979		\$77,650		(\$21,109)		\$390,520

- 1 – Actual MDCH payments.
2 – Adjustments to General Ledger figures (Finding 2).
3 – Non-Compliant Wage Allocation Methodology (Finding 3).
4 – Due to Non-Compliant Wage Allocation Methodology (Finding 3) and Overstated Agency Support Costs (Finding 4).
5 – Allocation Error Adjustment to County/City Central Services (Finding 5).
6 – Allocation Error Adjustment to Nursing Administration (Finding 6).

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: **Inadequate Financial Management System**

The Health Department's financial management system did not ensure accurate and complete disclosure of financial results, the maintenance of accounting records to adequately identify the use of grant funds, and the effective control and accountability of grant funds.

Recommendation: Evaluate the financial management system, and implement necessary changes to ensure adequate controls over financial reporting to provide reasonable assurance that reports of Federal awards include all activity of the reporting period, are supported by underlying accounting records, and are fairly presented in accordance with program requirements.

Health Department

Comments: The department underwent great turmoil when the Bookkeeper left at the beginning of 2010 after a long medical leave. The department, as with many local health departments, did not have adequate backup for the position, and as a result the records management system, particularly payroll management, was not able to be continued by the current staff. The accounting functions have been continued by part time staff. The system devised was not accurate enough and the payroll tracking was changed to a new system in 2011.

Corrective Action: The department is currently planning for a full time replacement of the Bookkeeper with a Senior Accountant to ensure adequate controls over financial reporting to provide reasonable assurance that reports of Federal awards include all activity of the reporting period, are supported by underlying accounting records, and are fairly presented in accordance with program requirements.

Anticipated Completion Date: New payroll tracking system is currently in place and new Senior Accountant should be hired and in place by June 1, 2012.

MDCH Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: **Expenditures Reported on FSR Not in Agreement with Final General Ledger**

The Health Department did not report accurate expenditures on the final FSR for FYE 2010 for the WIC Program and most other MDCH-funded programs.

Recommendation: Implement policies and procedures to ensure that all expenditures are accurately reported on the FSR. Additionally, file an amended FSR with MDCH that includes accurate expenditures for the WIC Program, all other MDCH programs, and Agency Support so that the appropriate funding adjustments may be made.

Health Department

Comments: See Finding #1 comments.

Corrective Action: The department will implement policies and procedures to ensure that all expenditures are accurately reported on the FSR.

Anticipated

Completion Date: This has been implemented.

MDCH Response: The Health Department must file an amended FSR with **MDCH Accounting** that includes **accurate expenditures for the WIC Program, all other MDCH programs, and Agency Support so that the appropriate funding adjustments may be made.**

Corrective Action Plan

Finding Number: 3

Page Reference: 5

Finding: **Non-Compliant Wage Allocation Methodology**

The Health Department did not properly allocate wages on the final FSR for FYE 2010 for the WIC Program and most other MDCH-funded programs.

Recommendation: Implement policies and procedures to ensure that wages are allocated in accordance with OMB Circular A-87. Additionally, file an amended FSR with MDCH that includes accurate wage allocations for the WIC Program and all other MDCH programs, and accurate indirect cost distributions so that the appropriate funding adjustments may be made.

Health Department

Comments: See Finding #1 comments.

Corrective Action: The department will implement policies and procedures to ensure that wages are allocated in accordance with OMB Circular A-87. An amended FSR was sent to the Audit Division with accurate WIC allocations.

Anticipated

Completion Date: Policies have been implemented.

MDCH Response: The Health Department must file an amended FSR with **MDCH Accounting** that includes **accurate wage allocations for the WIC Program and all other MDCH programs, and accurate indirect cost distributions so that the appropriate funding adjustments may be made.**

Corrective Action Plan

Finding Number: 4

Page Reference: 7

Finding: Overstated Agency Support Costs

The Health Department overstated agency support costs on the final FSR for FYE 2010 by not removing applicable credits, which resulted in an inflated administrative cost rate and over reported expenditures for the WIC Program and most other MDCH-funded programs.

Recommendation: Implement policies and procedures to ensure that costs included in the agency support cost pool are appropriately reduced by applicable credits. File an amended FSR with MDCH that includes the correct administrative cost rate of 12.02% so that the appropriate funding adjustments may be made.

Health Department

Comments: See Finding #1 comments.

Corrective Action: Implemented policies and procedures to ensure that costs included in the agency support cost pool are appropriately reduced by applicable credits.

Anticipated

Completion Date: This has been implemented.

MDCH Response: The Health Department must file an amended FSR with **MDCH Accounting** that includes the **correct administrative cost rate of 12.02%** so that the **appropriate funding adjustments may be made including the payback of \$59,306 for the H1N1 Phase III Program.**

Corrective Action Plan

Finding Number: 5

Page Reference: 8

Finding: County Central Service Costs Misallocated

The Health Department did not properly allocate County Central Service Costs which resulted in over reported expenditures for the WIC Program and misreporting for most other MDCH-funded programs on the final FSR for FYE 2010.

Recommendation: Implement policies and procedures to ensure that the County Central Service Cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received. File an amended FSR with MDCH that includes the correct allocation for County Central Service Costs so that the appropriate funding adjustments may be made.

Health Department

Comments: See Finding #1 comments.

Corrective Action: Implemented policies and procedures to ensure that the County Central Service Cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received.

Anticipated

Completion Date: This has been implemented.

MDCH Response: The Health Department must file an amended FSR with **MDCH Accounting** that includes the **correct allocation for County Central Service Costs so that the appropriate funding adjustments may be made.**

Corrective Action Plan

Finding Number: 6

Page Reference: 9

Finding: Nursing Administration Allocation Error

The Health Department did not have adequate documentation to support the Nursing Administration Allocation Rate that was utilized for the WIC Program FSR for FYE 2010.

Recommendation: Implement policies and procedures to ensure that the Nursing Administration cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received. File an amended FSR with MDCH that includes the correct cost pool and allocation for Nursing Administration, since the cost pool included incorrect amounts (Finding 1), incorrect Agency Support Costs were allocated to Nursing Administration (Finding 3), and incorrect County Central Service Costs were allocated to Nursing Administration (Finding 4) so that the appropriate funding adjustments may be made.

Health Department

Comments: See Finding #1 comments.

Corrective Action: Implemented policies and procedures to ensure that the Nursing Administration cost distribution base is accurate to ensure that indirect costs are equitably distributed to cost objectives in accordance with relative benefits received.

Anticipated

Completion Date: This has been implemented.

MDCH Response: The Health Department must file an amended FSR with **MDCH Accounting** that includes the **correct cost pool and allocation for Nursing Administration, since the cost pool included incorrect amounts (Finding 1), incorrect Agency Support Costs were allocated to Nursing Administration (Finding 3), and incorrect County Central Service Costs were allocated to Nursing Administration (Finding 4) so that the appropriate funding adjustments may be made.**