

Audit Report

Shiawassee County Health Department WIC Program

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review Section
October 2012



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

October 16, 2012

George J. Pichette, JD, Director/Health Officer
Shiawassee County Health Department
James P. Capitan Center
149 E. Corunna Avenue, 2nd Floor
Corunna, Michigan 48817

Dear Mr. Pichette:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Shiawassee County Health Department 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; Corrective Action Plan; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plan includes the agency's response to the Preliminary Analysis. The Comments and Recommendations section includes a comment regarding fringe benefit and nursing administration allocations, and the agency's response to the comment.

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 Shiawassee 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 Shiawassee County, and the administrative office is located in Corunna, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Shiawassee County. The Health Department provides community health program services to the residents of Shiawassee County. These services include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, AIDS/HIV Prevention, Children's Special Health Care Services, Bioterrorism/Emergency Preparedness/Pandemic Flu, Medicaid Outreach, and Women Infants and Children (WIC) Supplemental Food Program.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) provides the Health Department with grant funding monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program internal controls and financial reporting, and to determine the MDCH share of WIC Program costs. The following were the specific objectives of the audit:

1. To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Health Department's effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH share of costs for the WIC Program in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the fiscal period October 1, 2010 to September 30, 2011. Our review procedures included the following:

- Reviewed the most recent Shiawassee County Single Audit report for any WIC Program concerns.
- Completed the internal control questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.

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. We noted one exception regarding the Administration Overhead cost allocation (Finding 1).

Finding

1. Understated Administration Overhead Costs

The Health Department understated their Administration Overhead costs for WIC by \$6,764.

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. 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.”

When calculating the Administration Overhead costs, the Health Department did not include the portion of the County Central Service Costs allocable to administration in the cost pool. The Health Department allocates a portion of the County Central Service Costs to each cost center by using a percentage of direct expenditures. The County Central Service Cost allocation for Administration Overhead totaled \$43,664. By not allocating this amount to the Administration Overhead cost center, the WIC Administration Overhead expense was understated by \$6,764. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This will not impact MDCH funding since the Health Department has used all of their WIC Grant money.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all expenses relating to Administration Overhead are included in the calculation.

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 \$334,438. 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.

**Shiawassee 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	\$334,438	\$334,438 ¹	\$0	\$334,438
Local Non-LPHO	\$360	\$360	\$0	\$360
Local and Other Funds	\$21,631	\$21,631	\$10,909 ^{2, 3}	\$32,540
TOTAL REVENUES	\$356,429	\$356,429	\$10,909	\$367,338
EXPENDITURES:				
Salary and Wages	\$141,753	\$141,770	\$4,145 ²	\$145,915
Fringe Benefits	\$71,324	\$72,239	\$0	\$72,239
Contractual	\$200	\$123	\$0	\$123
Supplies	\$5,050	\$5,147	\$0	\$5,147
Travel	\$1,000	\$793	\$0	\$793
Communications	\$1,200	\$999	\$0	\$999
County Central Service Cost	\$25,241	\$28,631	\$0	\$28,631
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$1,300	\$1,569	\$0	\$1,569
Indirect Cost	\$109,361	\$105,158	\$6,764 ³	\$111,922
TOTAL EXPENDITURES	\$356,429	\$356,429	\$10,909	\$367,338

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
² Variance due to E-Grams Limitations.
³ Understated Administration Overhead Costs (Finding 1).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Understated Administration Overhead Costs

The Health Department understated their Administration Overhead costs for WIC by \$6,764.

Recommendation: Implement policies and procedures to ensure that all expenses relating to Administration Overhead are included in the calculation.

Health Department

Comments: This was caused by an error in the formula.

Corrective Action: The formula has been corrected. This will be double checked.

Anticipated

Completion Date: Completed.

MDCH Response: None.

Comments and Recommendations

1. **Fringe Benefits and Nursing Administration Are Allocated Based On Budget**

The Health Department is required to comply with OMB Circular A-87. According to OMB Circular A-87, fringe benefits must be equitably allocated to all related activities (Appendix B, Section 8. d.), and indirect cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived (Appendix A, Section F.). The Health Department expenses leave time to each department based on budgeted salaries for each program. The Health Department updates this allocation every time there is a CPBC amendment. The Health Department expenses fringe benefits to each department based on actual time spent in the program and budgeted leave time. The Health Department expenses Nursing Administration to departments based on budgeted FTE's. Distributions based on budget do not result in an equitable result in consideration of relative benefits derived. We recommend the Health Department implement policies and procedures to ensure that costs are distributed on bases that will produce an equitable result in consideration of relative benefits derived.

Management's Response: A payroll module has been purchased for our accounting system. Leave time will now be allocated to programs based on the actual number of hours that were worked in the two week pay period. If leave time is taken for the entire pay period, the prior pay period will be used to allocate time. Nursing administration will be allocated based on the actual salaries and fringes in the personal health programs.