

# Audit Report

St. Clair County Health Department  
WIC Program

October 1, 2013 – September 30, 2014



Office of Audit  
Quality Assurance and Review  
May 2015

# TABLE OF CONTENTS

	Page
Description of Agency .....	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology .....	1
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u> .....	2
<u>Financial Reporting</u> .....	2
1. County Overhead Costs Not Reported on FSR (Repeat).....	2
2. Personnel Activity Reports Not Used (Repeat) .....	3
3. Leave Time Not Equitably Allocated .....	4
4. Termination Costs Improperly Reported .....	4
<u>MDCH Share of Costs and Balance Due</u> .....	5
Statement of Grant Program Revenues and Expenditures .....	6
Corrective Action Plans .....	7

## **DESCRIPTION OF AGENCY**

The St. Clair County Health Department is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of St. Clair County, and the administrative office is located in Port Huron, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of St. Clair County. The Health Department provides community health program services to the residents of St. Clair County.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (MDCH) provided 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. The WIC Program was funded by MDCH Grant Funds, First and Second Party fees and collections, and Other Local Funds. Grant funding from MDCH for the WIC Program is federal funding under federal catalog number 10.557.

## **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 Department of Community Health 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, 2013 to September 30, 2014. We performed our review procedures in March 2015. Our review procedures included the following:

- Reviewed the most recent Health Department 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 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 and general Health Department 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, there were internal control exceptions related to financial reporting that are addressed in the financial reporting section of this report.

### **FINANCIAL REPORTING**

**Objective 2:** To assess the Health Department’s effectiveness in reporting their WIC Program financial activity to MDCH in accordance with applicable Department of Community Health 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 Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we identified four financial reporting exceptions: allocable County overhead costs were not reported on the FSR (Finding 1), personnel activity reports were not used to allocate time between programs (Finding 2), leave time was not allocated to all benefiting programs (Finding 3), and reporting termination costs as part of direct expense (Finding 4).

#### **Finding**

##### **1. County Overhead Costs Not Reported on FSR (Repeat)**

The Health Department did not report their allocable share of the County’s Central Service Costs, including space costs, on the FSR.

The Health Department's contract with MDCH (Part II, Section IV, Part D) requires the FSRs report total actual program expenditures regardless of the source of funding. Additionally, 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 A, Sections D. and C.:

*The total cost of Federal awards is comprised of the allowable direct cost of the program, plus its allocable portion of allowable indirect 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 Service Cost Allocation Plans, prepared by Maximus, showed costs allocable to all County Departments including the Health Department. However, the Health Department did not include any of the allocable County costs on the FSR. Had the Health Department recorded the additional allocable costs, it would have reported an additional \$129,237 in indirect expense. The Health Department would have received no additional MDCH grant funds under the 2014 budget. However, a full disclosure of the total cost of operating the WIC Program should be provided to MDCH for evaluation purposes.

### **Recommendation**

We again recommend the Health Department implement policies and procedures to ensure County overhead expenses allocable to the Health Department are reported on future FSRs.

### **Finding**

#### **2. Personnel Activity Reports Not Used (Repeat)**

The Health Department does not use personnel activity reports when allocating personnel costs between the WIC Program and other programs, and the substitute system has not received approval.

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. h. (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 8. h. (5) unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.*

The Health Department does not require full time employees to complete personnel activity reports that meet the standards in Section 8. h. (5) for allocating time between the WIC Program and other programs. Rather, full time employees are charged to their "home" programs, and time outside of home programs is documented electronically with monthly journal entries shifting costs among programs.

## **Recommendation**

We again recommend that the Health Department adopt policies and procedures to ensure the distribution of payroll costs comply with Federal cost principles. We advise the Health Department to consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing policies and procedures.

## **Finding**

### **3. Leave Time Not Equitably Allocated**

The Health Department did not properly allocate leave time to all benefiting 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). 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 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 expensed all leave to employees' "home" programs. The Health Department did not allocate employees' leave times based on the time worked on each individual program.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that the costs for authorized leave are equitably allocated to all related activities.

## **Finding**

### **4. Termination Costs Improperly Reported**

The Health Department improperly reported termination costs as direct expenses on the FSR.

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. d. (3.):

*Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.*

The Health Department expenses payments for unused leave when an employee retires or terminates employment directly to the employee's "home" program. However, these payments should be treated as a general administrative expense and allocated to all activities of the Health Department.

No adjustment will be made on the attached Statement of Grant Program Revenues and Expenditures because an accurate calculation could not be easily determined given the multiple programs likely receiving direct charges of termination costs, and the likelihood of no financial impact given the level of local funding.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure termination costs are allocated as a general administrative expense to all activities of the Health Department.

## **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, 2014, is \$639,259. The attached Statement of Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**St. Clair County Health Department  
WIC Supplemental Food Program  
Statement of Grant Program Revenues and Expenditures  
10/1/13 - 9/30/14**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant	\$639,259	\$639,259 <sup>1</sup>		\$639,259
Local Funds - Other	\$34,094	\$69,152		\$69,152
Fees & Collections - 1st and 2nd Party		\$535		\$535
<b>TOTAL REVENUES</b>	<b>\$673,353</b>	<b>\$708,946</b>	<b>\$0</b>	<b>\$708,946</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$341,896	\$392,935		\$392,935
Fringe Benefits	\$171,577	\$162,974		\$162,974
Supplies & Materials	\$26,821	\$16,088		\$16,088
Travel	\$2,725	\$2,916		\$2,916
Communication	\$2,000	\$1,276		\$1,276
Other	\$5,850	\$335		\$335
Indirect Costs	\$105,353	\$109,297		\$109,297
Other Costs Distributions	\$17,131	\$23,125		\$23,125
<b>TOTAL EXPENDITURES</b>	<b>\$673,353</b>	<b>\$708,946</b>	<b>\$0</b>	<b>\$708,946</b>

<sup>1</sup> Actual MDCH payments.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** County Overhead Costs Not Reported on the FSR (Repeat)

The Health Department did not report their allocable share of the County's Central Service Costs, including space costs, on the FSR.

**Recommendation:** Implement policies and procedures to ensure County overhead expenses allocable to the Health Department are included on the FSR.

**Comments:** The County-Wide Cost Allocation Plans do indicate County overhead costs allocable to the Health Department. However, allocable County costs are not broken down in enough detail to allow the Health Department to determine overhead costs allocable to each individual program. This prevents the reporting of County costs on the programmatic FSRs.

**Corrective Action:** The County Controller's office has indicated that it will be preparing an updated County-Wide Cost Allocation Plan with a new consultant. The updated plan will be modified to provide the detail necessary for including the County overhead costs at a programmatic level.

**Anticipated Completion Date:** October 1, 2015

**MDCH Response:** The County overhead costs are typically included in the indirect cost pool and allocated to programs as the other indirect costs are allocated. Additional detail may not be necessary.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Personnel Activity Reports Not Used (Repeat)

The Health Department does not use personnel activity reports when allocating personnel costs between the WIC Program and other programs, and the substitute system has not received approval.

**Recommendation:** Adopt policies and procedures to ensure the distribution of payroll costs comply with Federal cost principles. Consider the grant reforms contained at 2 CFR Part 200.430(i) related to the Standards for Documentation of Personnel Expenses that will be effective with awards issued for FYE 2016 in developing policies and procedures.

**Comments:** Development of an electronic employee time tracking system was initiated in 2014, but delayed due to the loss of key IT personnel. The system creation will resume in May 2015 with the hiring of a private contractor to complete the programming work.

**Corrective Action:** The Health Department is currently working with IT and a contracted programming company to develop/modify the current employee time tracking system that is in place (already being used by IT to track staff time). We will be able to have staff enter their time into the system and code it to a specific org key/project and then this information will upload directly into OneSolution for payroll. At that time, all of the payroll will be posted correctly rather than based on a percentage of time.

**Anticipated Completion Date:** October 1, 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Leave Time Not Equitably Allocated

The Health Department did not properly allocate leave time to all benefiting programs.

**Recommendation:** Implement policies and procedures to ensure that the costs for authorized leave are equitably allocated to all related activities.

**Comments:** Currently the Health Department expenses leave time to the employees' home program.

**Corrective Action:** The Health Department is currently working with IT and a contracted programming company to develop/modify a current IT employee time tracking system. The Health Department will work with IT to build in the functionality needed to allocate leave time costs to the programs based on the actual employee reported hours in each program.

**Anticipated  
Completion Date:** October 1, 2015

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 4

**Finding:** Termination Costs Improperly Reported

The Health Department improperly reported termination costs as direct expenses on the FSR.

**Recommendation:** Implement policies and procedures to ensure termination costs are allocated as a general administrative expense to all activities of the Health Department.

**Comments:** Currently termination costs are shown as an expense to the individual program in which the employee worked.

**Corrective Action:** Implement a procedure to code employee termination activity reports so that the termination costs are allocated to the Agency Support Org Key making those costs a general administrative expense to all activities of the Health Department.

**Anticipated Completion Date:** June 1, 2015

**MDCH Response:** None