

Audit Report

Wayne County Department of
Health, Veterans, and Community Wellness

WIC and WIC Breastfeeding Programs

October 1, 2013 – September 30, 2014



Bureau of Audit, Reimbursement, and Quality Assurance
Quality Assurance and Review Section
February 2016



STATE OF MICHIGAN

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

NICK LYON
DIRECTOR

February 11, 2016

Mouhanad Hammami, MD, Director/Health Officer
Wayne County Department of Health, Veterans, and Community Wellness
33030 VanBorn Road
Wayne, MI 48184

Dear Dr. Hammami:

Enclosed is our final report from the Michigan Department of Health and Human Services (MDHHS) audit of the Wayne County Department of Health, Veterans, and Community Wellness WIC Program for the period October 1, 2013 through September 30, 2014.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of Grant Program Revenues and Expenditures; Corrective Action Plans; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans, and Comments and Recommendations include the agency's paraphrased response to the Preliminary Analysis, and MDHHS's response to those comments where necessary.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: Stan Bien, Director, WIC Division
Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance
Kamau Kheperu
Carol Austerberry

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology	1
Purpose and Objectives	1
Scope and Methodology	2
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u>	2
<u>Financial Reporting</u>	2
1. Payments to Subcontractor for Unsupported Administration Fees	3
2. Fixed Amount Awards to Subrecipients Not Allowed Under Applicable Cost Principles ...	4
3. Termination Costs Improperly Reported	4
4. Indirect Overhead Cost Not Allocated to WIC Breastfeeding Program.....	5
<u>MDCH Shares of Cost and Balance Due</u>	6
Statement of Grant Program Revenues and Expenditures - WIC Resident.....	7
Statement of Grant Program Revenues and Expenditures - WIC Breastfeeding.....	8
Corrective Action Plans	9
Comments and Recommendations.....	15

DESCRIPTION OF AGENCY

The Wayne County Department of Health, Veterans, and Community Wellness (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Wayne County, and the administrative office is located in Detroit, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is appointed by the Board of Commissioners of Wayne County. The Health Department provided various health program services to the residents of Wayne County during fiscal year end 2014.

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 Programs were funded by MDCH Grant Funds and Other Local Funds. Grant funding from MDCH for the WIC Programs is federal funding under federal catalog number 10.557.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Programs' internal controls and financial reporting, and to determine the MDCH shares of the WIC Programs' 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 Programs.
2. To assess the Health Department's effectiveness in reporting their WIC Programs' 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 shares of cost for the WIC Programs 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. 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 Programs' Financial Status Reports (FSRs) to the accounting records.
- Reviewed payroll expenditure reporting.
- 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 Programs.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the WIC Programs. However, several financial reporting exceptions were noted that are addressed in the Financial Reporting Section and Comments and Recommendations Section of this report, and improved controls are needed to ensure compliance with Federal cost principles and proper reporting of costs.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Programs' 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 Programs' 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 noted exceptions related to payments to a subcontractor for unsupported administrative fees (Finding 1), fixed amount awards to subrecipients (Finding 2), termination costs improperly reported (Finding 3), and the lack of administrative cost allocations to a benefitting program (Finding 4). We also noted some other less significant issues that are addressed in the Comments and Recommendations Section of this report.

Finding

1. Payments to Subcontractor for Unsupported Administration Fees

The Health Department paid a subcontractor a 5% administration fee that was not supported as an allowable cost according to Federal cost principles.

According to OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A (in pertinent part):

- 1. The total cost of an award is the sum of allowable direct and allocable indirect costs less any applicable credits...*
- 2. To be allowable under an award, costs must...be allocable...be adequately documented...*
- 4. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.*

The Health Department's contract with the Southeastern Michigan Health Association (SEMHA) requires SEMHA to provide assistance to the Health Department in the execution, implementation, and performance of various grants received by the Health Department, including the WIC Program grant. The Health Department agreed to pay SEMHA "at the rate of 5% of the total expenditures authorized for each program...to offset administrative expenses." The 5% administration fee was not supported as an allowable cost (based on actual costs of SEMHA allocated to all benefitting programs) according to OMB Circular A-122 provisions, which represents the applicable Federal cost principles during the audit period for SEMHA.

Recommendation

We recommend that the Health Department amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subcontractors to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles.

Finding

2. Fixed Amount Awards to Subrecipients Not Allowed Under Applicable Cost Principles

The Health Department used fixed amount awards to reimburse two subrecipients for WIC Program services rather than supported actual costs as required by the applicable Federal cost principles.

According to OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A (in pertinent part):

- 1. The total cost of an award is the sum of allowable direct and allocable indirect costs less any applicable credits...*
- 2. To be allowable under an award, costs must...be allocable...be adequately documented...*
- 4. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.*

The Health Department's Agreements with the Arab Community Center for Economic and Social Services and The Resource Network Inc. require the subrecipients to provide WIC Program services at agreed upon locations. The Health Department agreed to reimburse the subrecipients fixed rates per month per WIC participant properly serviced. The rates, however, have not been supported as being the actual cost of providing the services for the subrecipients, and are therefore not in compliance with the requirements of OMB Circular A-122, which represent the applicable Federal cost principles during the audit period for the subrecipients.

Recommendation

We recommend that the Health Department amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subrecipients to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles. We recommend the Health Department consider the Federal Grant Reforms contained at 2 CFR 200.332 and 200.201 (applicable to FYE 2016 awards) whereby fixed amount subawards are permissible with prior written approval up to the Simplified Acquisition Threshold (\$150,000) under certain specific conditions.

Finding

3. Termination Costs Improperly Reported

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

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 sick and annual 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. The amount direct charged to the WIC Program was \$7,773. An adjustment will not be made since an accurate calculation could not be easily determined and since there would be no impact on grant 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.

Finding

4. Indirect Overhead Cost Not Allocated to WIC Breastfeeding Program

The Health Department did not allocate any administration costs to the WIC Breastfeeding Program.

The MDCH contract, Part II, Section IV. D. requires FSRs to include "total actual program expenditures regardless of the source of funds."

OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Sections D. and F. state:

The total cost of Federal awards is comprised of allowable direct cost of the program, plus its allocable portion of allowable indirect costs, less applicable credits...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 WIC Breastfeeding Program receives benefit from the administration costs incurred and should receive an equitable distribution. An adjustment showing a distribution of administration costs to the WIC Breastfeeding Program is shown on the attached Statement of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department take action to ensure the administration costs are allocated to all programs receiving a benefit.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the WIC Programs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligations under the WIC Programs for fiscal year ended September 30, 2014, are \$3,291,060 for WIC Resident and \$68,129 for WIC Breastfeeding. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant funding.

**Wayne County Health Department
WIC Program
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$3,291,060	\$3,291,060 ¹	\$0	\$3,291,060
Fees and Collections	\$0	\$0	\$0	\$0
Local Funds Other	\$97,002	\$10,578	\$51,048	\$61,626
TOTAL REVENUES	\$3,388,062	\$3,301,638	\$51,048	\$3,352,686
EXPENDITURES:				
Salary and Wages	\$505,717	\$572,902	\$0	\$572,902
Fringe Benefits	\$483,041	\$444,136	\$0	\$444,136
Contractual	\$1,406,774	\$1,465,648	\$51,048 ²	\$1,516,696
Supplies	\$23,215	\$12,866	\$0	\$12,866
Travel	\$17,900	\$14,728	\$0	\$14,728
Communications	\$2,350	\$2,383	\$0	\$2,383
County-City Central Services	\$5,000	\$5,153	\$0	\$5,153
Space Cost	\$6,000	\$6,000	\$0	\$6,000
Other Costs	\$1,500	\$2,166	\$0	\$2,166
Other Cost Distributions	\$936,565	\$775,656	\$0	\$775,656
TOTAL EXPENDITURES	\$3,388,062	\$3,301,638	\$51,048	\$3,352,686

¹ Actual MDCH payments.

² Accrued contractual services not included on Financial Status Report (Comment #1).

**Wayne County Health Department
WIC Breastfeeding Program
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$68,129	\$68,129 ¹	\$0	\$68,129
Other Revenue	\$0	\$0	\$0	\$0
Local Funds Other	\$36,193	\$22,030	\$6,561	\$28,591
TOTAL REVENUES	\$104,322	\$90,159	\$6,561	\$96,720
EXPENDITURES:				
Salary and Wages	\$10,830	\$4,488	\$0	\$4,488
Fringe Benefits	\$10,492	\$4,097	\$0	\$4,097
Contractual	\$76,091	\$81,574	\$0	\$81,574
Supplies	\$1,000	\$0	\$0	\$0
Travel	\$1,050	\$0	\$0	\$0
Other Cost Distribution	\$4,859	\$0	\$6,561 ²	\$6,561
TOTAL EXPENDITURES	\$104,322	\$90,159	\$6,561	\$96,720

¹ Actual MDCH payments.

² Indirect overhead cost was not allocated to the program (Finding #4).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Payments to Subcontractor for Unsupported Administration Fees

The Health Department paid a subcontractor a 5% administration fee that was not supported as an allowable cost according to Federal cost principles.

Recommendation: Amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subcontractors to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles.

Comments: The current SEMHA contract shows a vendor relationship in which the administrative costs are the fee for services that are provided to the County.

Corrective Action: The Health Department will ensure all fees are allowable charges and thus can be funded under Federal cost principles. The Health Department will maintain on file a current listing of the itemized administrative costs that are being charged to the WIC Program.

**Anticipated
Completion Date:** January 21, 2016

MDHHS Response: The cost principles contained in 2 CFR Subpart E must be used in determining the allowable costs of work performed under Federal awards to carry out a Federal program, but are not applicable to pricing contracts used to buy services from a contractor (as defined by 2 CFR 200.23). However, a cost or price analysis must be performed in connection with every procurement action in excess of the Simplified Acquisition

Threshold in accordance with 2 CFR 200.323, and the basis for the contract price must be documented and maintained in accordance with 2 CFR 200.318(i). Accordingly, the basis for the price agreed to be paid to SEMHA as a contractor under a contract (as defined by 2 CFR 200.22) must be documented and maintained.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Fixed Amount Awards to Subrecipients Not Allowed Under Applicable Cost Principles

The Health Department used fixed amount awards to reimburse two subrecipients for WIC Program services rather than supported actual costs as required by the applicable Federal cost principles.

Recommendation: Amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subrecipients to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles. Consider the Federal Grant Reforms contained at 2 CFR 200.332 and 200.201 (applicable to FYE 2016 awards) whereby fixed amount subawards are permissible with prior written approval up to the Simplified Acquisition Threshold (\$150,000) under certain specific conditions.

Comments: The subrecipient contracts are being revised to be in compliance with the applicable Federal cost principles. Each contract will include a section on reimbursement requiring the submittal of cost reports based on actual incurred costs, and the accomplishment of performance measures to receive full reimbursement of costs. A revision of the contracts with full approval by the Wayne County Commission will be executed as expediently as possible.

Corrective Action: The Health Department will revise and execute amended contracts with the WIC Program subrecipients.

**Anticipated
Completion Date:** June 1, 2016

MDHHS Response: We also recommended that the Health Department monitor subrecipients to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles. We reiterate that recommendation, and suggest that the Health Department refer to 2 CFR 200.331 for their subrecipient management and monitoring responsibilities.

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Termination Costs Improperly Reported

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

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

Comments: Wayne County's Management and Budget Department and the Health Department inadvertently reported termination costs as direct expenses on the FSRs. The Health Department is required to follow the existing Wayne County Management and Budget Department policies and procedures, that state all reporting of costs are to be in compliance with OMB Circular A-87 guidelines.

Corrective Action: Prior to the WIC Program FSRs being submitted to the State, they will be reviewed by a financial division manager to ensure that the payouts of unused sick and annual leave time are treated as a general administrative expense and reported accurately.

**Anticipated
Completion Date:** January 21, 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: Indirect Overhead Cost Not Allocated to WIC Breastfeeding Program

The Health Department did not allocate any administration costs to the WIC Breastfeeding Program.

Recommendation: Take action to ensure the administration costs are allocated to all programs receiving a benefit.

Comments: The Health Department follows the Wayne County Management and Budget method for allocation of administration costs for programs. The current method did not allocate charges to the WIC Breastfeeding Program.

Corrective Action: For FYE 2016, the Health Department will work with Wayne County's Management and Budget Department and re-evaluate how administration costs are allocated to the WIC Breastfeeding Program.

**Anticipated
Completion Date:** October 1, 2016

MDHHS Response: None

Comments and Recommendations

1. Year-End Accrual Not Included on the Final FSR

The Health Department included the September billing from ACCESS dated 11/10/2014 (received 11/24/2014) for \$51,048 in the General Ledger, but did not include it on the final FSR dated 12/1/2014.

The MDCH contract, Part II, Section IV. D. requires FSRs to include “total actual program expenditures regardless of the source of funds.”

An adjustment is included on the attached Statement of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department take action to ensure that prior to the submission of the final FSR, all potential accruals are identified and included in the General Ledger and FSR.

Management Response: In the future, all potential accruals will be identified and included in the General Ledger and the FSR for the WIC Program expenditures.

2. Insurance and Bonds Reported as Fringe Benefits

The Health Department included Insurance and Bonds (general ledger #911000) as part of Fringe Benefits on the FSRs.

The MDCH contract, Part II, Section IV. D. requires FSRs to be prepared in accordance with the Department’s FSR instructions. The FSR Form Preparation Instructions states that the Fringe Benefits category is to include the employer’s contributions for benefits for employees. Insurance and Bonds expenses included in general ledger #911000 are not benefits to employees; rather, they are benefits to the Health Department.

An adjustment is not included on the attached Statements of Grant Program Revenues and Expenditures since it is a misclassification issue and there is no impact on total expenditures.

Recommendation

We recommend that the Health Department remove Insurance and Bonds expenses from the Fringe Benefits category on the FSR, and properly classify them as “Other” expenses for FSR reporting purposes.

Management Response: In the future, Insurance and Bonds expenses will be classified as “Other” expenses for FSR reporting.