



STATE OF MICHIGAN

GRETCHEN WHITMER  
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

ROBERT GORDON  
DIRECTOR

January 17, 2019

Stevi Atkins, Chief Executive Officer  
Wellness AIDS Services, Inc.  
311 E. Court Street  
Flint, Michigan 48502

Dear Ms. Atkins:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Wellness AIDS Services, Inc. Ryan White Part B and HIV Prevention Programs for the period October 1, 2016 through May 31, 2018.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings, and Recommendations; Statements of Grant Program Revenues and Expenditures; and Comments and Recommendations. The Corrective Action Plans and Comments and Recommendations include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on the MDHHS website at:  
[https://www.michigan.gov/mdhhs/0,5885,7-339-73970\\_43164-151236--,00.html](https://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html)

Thank you for the cooperation extended throughout this audit.

Sincerely,

A handwritten signature in black ink that reads "Shannah M. Havens".

Shannah M. Havens, CPA, CISA  
Audit Section Manager  
Population Health and Community Services Sections  
Audit Division

Attachment

cc: Debra Hallenbeck, Director, Audit Division  
Dawn Lukomski, Manager, HIV Care and Prevention Sections  
Thomas Dunn, Manager, Division of HIV and STD Programs  
Tammy Calhoun, Accountant, Walker June Calhoun, CPAs PC  
Dionne Ziegler, Data Manager, Wellness AIDS Services, Inc.

# Audit Report

Wellness AIDS, Inc.

Ryan White Part B and HIV Prevention Programs

October 1, 2016 – May 31, 2018



Bureau of Audit

Audit Division

January 2019

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## **DESCRIPTION OF AGENCY**

Wellness AIDS Services, Inc. (Agency) is organized as a not-for-profit corporation under the provision of 501(c) (3) of the Internal Revenue Code. The Agency provides medical and non-medical case management for people living with HIV/AIDS. The Agency also provides prevention education and support services to people living with and at risk for HIV/AIDS. The Agency is located in Flint, Michigan and serves the residents of Genesee County.

## **FUNDING METHODOLOGY**

The Agency receives funding from grant programs administered through the Michigan Department of Health and Human Services (MDHHS). MDHHS grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of each grant agreement and budget.

The HIV Care Grant Ryan White HIV/AIDS Program (RWHAP) Part B was funded by MDHHS Grant Funds. Grant funding from MDHHS for the RWHAP Part B Program is federal funding under federal catalog number 93.917.

The HIV Prevention Program was funded by MDHHS Grant Funds. Grant funding from MDHHS for the HIV Prevention Program is federal funding under federal catalog number 93.940

## **PURPOSE AND OBJECTIVES**

The purpose of this audit was to assess the Agency's financial reporting and to determine the MDHHS shares of cost according to the agreements, and program standards and regulations. The following were the specific objectives of the audit:

1. To assess the Agency's effectiveness and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, and generally accepted accounting principles.
2. To determine the MDHHS shares of cost in accordance with MDHHS requirements and agreements, Federal standards and program standards, and any balance due to or due from the Agency.

## SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal periods October 1, 2016 to September 30, 2017 and October 1, 2017 to May 31, 2018. Our review procedures included the following:

- Reviewed the completed Subrecipient Questionnaire.
- Reconciled RWHAP Part B and HIV Prevention Programs Financial Status Reports (FSRs) 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 building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed equipment purchases over \$5,000 for the RWHAP Part B and Prevention Programs.
- Reviewed RWHAP Part B client eligibility.

Our audit did not include a review of program content or quality of services provided.

## CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

### FINANCIAL REPORTING

**Objective 1:** To assess the Agency's effectiveness and accuracy in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, and generally accepted accounting principles.

**Conclusion:** The Agency was generally effective and accurate in reporting its financial activity to MDHHS in accordance with MDHHS requirements and agreements, Federal standards, and generally accepted accounting principles. We identified the following exceptions: Improper allocation of expenses (Finding 1), and salary and fringe benefits being reported at budgeted amounts (Finding 2).

#### Finding

##### **1. Improper Allocation of Expenses**

The Agency did not properly allocate its joint expenses to the appropriate benefiting programs.

Title 2 CFR 200.405(a) Allocable Costs states, "A cost is allocable to a particular Federal award or other cost objective if the goods or services involved are chargeable or assignable to that Federal award or cost objective in accordance with relative benefits received...(d) If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects

based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined...the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.”

During our review, we noted that the Agency improperly allocated the following expenditures in 2018. For the RWHAP Part B Program we noted the following:

- Recorded \$4,208 of contracted consulting services expenditures when the proportional share that should have been recorded to the Program was \$338.

We also noted that the Agency calculates its annual allocation percentages based on FTEs, for fiscal year 2018 HIV Prevention’s allocation was 34%. During our FY 2018 review, we noted that three (17%) of 15 HIV Prevention expenditures were not properly calculated and allocated to the Program:

- Understated office supplies expenditures in January 2018 by \$38;
- Overstated office supplies expenditures in May 2018 by \$295;
- Overstated travel expenditures November 2017 by \$34.

The Agency did not have sufficient controls in place to ensure that its expenditures were properly calculated and allocated to the appropriate benefiting programs. The 2018 Statement of Grant Program Revenues and Expenditures show the adjustments to reflect the reduced allowable expenditures as of May 31, 2018. The Agency commented the amounts were corrected in July 2018. With the additional information the corrections will be confirmed in a future monitoring visit.

### **Recommendation**

We recommend that the Agency implement sufficient controls and procedures to properly allocate joint costs to the appropriate benefiting programs to ensure compliance with Federal regulation.

### **Finding**

#### **2. Payroll Distributions Inappropriately Based on Budget Allocations**

The Agency does not require employees who work on multiple programs to document actual time worked and distributes employees’ salaries and wages to programs based on budget allocations with no adjustments to actual work performed.

Title 2 CFR 200.430(i) (1) states, “Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must: (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated...(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that: (A) The system for establishing the estimates produces

reasonable approximations of the activity actually performed; (B) Significant changes in the corresponding work activity are identified and entered into the records in a timely manner...; and (C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal award based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable and properly allocated."

During our review, we noted that the Agency allocated salaries and wages based on budgeted program FTE percentages for its employees working on multiple programs for two (40%) of five Prevention employees and four (36%) of 11 Ryan White Part B employees. We also noted that one (20%) of five Prevention employees reported 100% of their actual time worked to Prevention; however, only 50% was expensed to Prevention and the remaining time to a local funding source. Compensation can be allocated to benefiting programs using a predetermined budgeted percentage for interim purposes, but 2 CFR 200 requires an adjustment to actual. Since time records do not show actual activity of employees working on multiple programs, the Agency is unable to properly conduct an analysis of actual activity to determine if any adjustments are necessary.

### **Recommendation**

We recommend that the Agency implement sufficient procedures and controls to ensure that all salary and wages are properly allocated to benefiting programs based on actual activity to ensure compliance with Federal regulations.

## **MDHHS SHARES OF COST AND BALANCE DUE**

**Objective 2:** To determine the MDHHS shares of cost in accordance with MDHHS requirements and agreements, and any balance due to or due from the Agency.

**Conclusion:** The MDHHS obligations under the RWHAP Part B Program for fiscal year ended September 30, 2017, is \$572,591 and the period ended May 31, 2018, is \$354,631. The MDHHS obligations under the HIV Prevention Program for fiscal year ended September 30, 2017, is \$140,571 and the period ended May 31, 2018, is \$98,297. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs.

**Wellness AIDS Services, Inc.**  
**RWHAP Part B**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/16 - 9/30/17**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$592,807	\$572,591 <sup>1</sup>		\$572,591
<b>TOTAL REVENUES</b>	\$592,807	\$572,591	\$0	\$572,591
<b>EXPENDITURES:</b>				
Salary & Wages	\$389,840	\$400,246		\$400,246
Fringe Benefits	\$98,048	\$89,867		\$89,867
Travel	\$14,670	\$16,677		\$16,677
Supplies and Materials	\$12,000	\$11,279	\$154 <sup>2</sup>	\$11,434
Contractual	\$14,600	\$6,800		\$6,800
Equipment				\$0
Other Expenses	\$63,649	\$47,721	(\$154) <sup>2</sup>	\$47,567
<b>TOTAL EXPENDITURES</b>	\$592,807	\$572,591	\$0	\$572,591

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

<sup>2</sup> Misclassification of Supplies and Materials as Other Expenses (CR 4)



**Wellness AIDS Services, Inc.**  
**RWHAP Part B**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/17 - 5/31/18**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$592,807	\$358,501 <b>1</b>	(\$3,870) <b>2</b>	\$354,631
<b>TOTAL REVENUES</b>	\$592,807	\$358,501	(\$3,870)	\$354,631
<b>EXPENDITURES:</b>				
Salary & Wages	\$402,780	\$248,030		\$248,030
Fringe Benefits	\$99,402	\$65,950		\$65,950
Travel	\$12,544	\$7,319		\$7,319
Supplies and Materials	\$11,000	\$3,270		\$3,270
Contractual	\$5,000	\$4,208	(\$3,870) <b>2</b>	\$338
Equipment				\$0
Other Expenses	\$62,081	\$29,726		\$29,726
<b>TOTAL EXPENDITURES</b>	\$592,807	\$358,501	(\$3,870)	\$354,631

**1** Actual MDHHS payments.

**2** Improper Allocation of Expenses (Finding 2)

**Wellness AIDS Inc.**  
**HIV/AIDS Prevention**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/16 - 9/30/17**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$146,691	\$140,517 <sup>1</sup>		\$140,517
<b>TOTAL REVENUES</b>	\$146,691	\$140,517	\$0	\$140,517
<b>EXPENDITURES:</b>				
Salary & Wages	\$83,750	\$82,410		\$82,410
Fringe Benefits	\$22,613	\$28,458		\$28,458
Travel	\$6,920	\$3,729		\$3,729
Supplies and Materials	\$16,358	\$14,364		\$14,364
Other Expenses	\$17,050	\$11,556		\$11,556
<b>TOTAL EXPENDITURES</b>	\$146,691	\$140,517	\$0	\$140,517

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

**Wellness AIDS, Inc.**  
**HIV/AIDS Prevention**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/17 - 5/31/18**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDHHS Grant	\$146,691	\$98,588 <sup>1</sup>	(\$291) <sup>2</sup>	\$98,297
<b>TOTAL REVENUES</b>	\$146,691	\$98,588	(\$291)	\$98,297
<b>EXPENDITURES:</b>				
Salary & Wages	\$85,750	\$60,309		\$60,309
Fringe Benefits	\$30,013	\$16,488		\$16,488
Travel	\$4,078	\$3,709	(\$34) <sup>2</sup>	\$3,675
Supplies and Materials	\$11,500	\$9,477	(\$257) <sup>2</sup>	\$9,220
Other Expenses	\$15,350	\$8,605		\$8,605
<b>TOTAL EXPENDITURES</b>	\$146,691	\$98,588	(\$291)	\$98,297

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

<sup>2</sup> Improper Allocation of Expenses (Finding 1)

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 2

**Finding:** Improper Allocation of Expenses

The Agency did not properly allocate its joint expenses to the appropriate benefiting programs.

**Recommendation:** Implement sufficient controls and procedures to properly allocate joint costs to the appropriate benefiting programs to ensure compliance with Federal regulation

**Comments:** Wellness AIDS, Inc. has procedures in place to properly allocate joint costs. This instance was a misallocation that was identified through our process of monthly review of expense allocations. This was an error made in May, identified in June, and corrected in July.

**Corrective Action:** Agency implemented additional layer of oversight upon identifying error prior to fiscal site review in July 2018. Quality Assurance Manager now reviews monthly expense report before submission of monthly FSR to correct any misallocations/expense errors prior to FSR submission.

**Persons Responsible**

**for Implementation:** CEO, CPA, and the Quality Assurance Manager

**Anticipated**

**Completion Date:** July 2018

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** **Payroll Distributions Inappropriately Based on Budget Allocations**

The Agency does not require employees who work on multiple programs to document actual time worked, and distributes employees' salaries and wages to programs based on budget allocations with no adjustments to actual work performed.

**Recommendation:** Implement sufficient procedures and controls to ensure that all salary and wages are properly allocated to benefiting programs based on actual activity to ensure compliance with Federal regulations

**Comments:** Staff is required to track time when working on multiple programs and actual time worked is reassessed annually and adjusted during budget development. In order to meet the state's requirement, Wellness AIDS, Inc. requests assistance in developing an appropriate tracking system.

**Corrective Action:** Wellness AIDS Services, Inc. will work with MDHHS to develop a new process for documenting actual time worked.

**Persons Responsible for Implementation:** CEO and Quality Assurance Manager

**Anticipated Completion Date:** December 2018

## Comments and Recommendations

### 1. Noncompliance with Agency's Own Holiday Pay Policy

The Agency did not comply with its Holiday Pay policy. Title 2 CFR 200.303 states, "The non-Federal entity must: (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States..." The Standards for Internal Control in the Federal Government, OV1.03 states, "Internal control comprises the plans, methods, policies, and procedures...of the entity. Internal control serves as the first line of defense in safeguarding assets...through effective stewardship of public resources." Additionally, 2 CFR 200.431(b)(1) states that for the cost of holiday leave to be allowable, it must be provided under established written leave policies among other things. The Agency's Holiday Pay Policy states, "Eligible employees will receive holiday pay based upon their regular rate of pay. To be eligible, the employee must work both the regularly scheduled work day before and after the holiday." During our review, we noted that four (40%) of 10 RW Part B and one (20%) of five Prevention employees were paid holiday pay despite not working the days before and after the holiday. We recommend that the Agency implement sufficient controls to ensure its own policies are appropriately followed to ensure compliance with Federal regulation.

**Management's Response:** Agency policy as written is outdated and has been changed to eliminate this verbiage.

**Person Responsible  
for Implementation:** CEO

**Anticipated  
Completion Date:** Immediate - December 2018

## **2. Lack of Documented Procurement Procedures**

The Agency did not have documented procurement procedures. Title 2 CFR 200.318 requires documented procurement procedures that must conform to the standards identified in 2 CFR 200.318-326. Minimally, the following should be addressed/considered in the written procurement procedures:

- Oversight to ensure contractors perform in accordance with contracts or purchase orders.
- Procedures to avoid the acquisition of unnecessary or duplicative items. Consideration should be given to the consolidation or breaking out procurements to obtain a more economical purchase. Where appropriate, an analysis will be made of lease versus purchase alternatives, purchase of Federal surplus property instead of new, entering into interagency agreements for use or procurement of commonly used goods or services, and any other appropriate analysis to determine the most economical approach.
- Award contracts on a basis other than cost alone such as integrity, record of past performance, and resources available.
- Maintaining a history of procurement including the rationale for the procurement method, contractor selection, and basis for price.
- Procedures to ensure procurement transactions are conducted in a manner providing full and open competition.
- Ensuring all solicitations incorporate a clear and accurate description of specifications and all requirements, and what bids and proposals will be evaluated on.
- Micropurchases (aggregate dollar amount \$10,000 or less) may be awarded without competitive quotes as long as the price is reasonable.
- Small purchases (aggregate dollar amount \$10,001 to \$250,000) quotations must be obtained from an adequate number of qualified sources.
- Bidding and proposal procedures in compliance with Federal regulation.

We recommend that the Agency establish sufficient documented procurement procedures to ensure compliance with federal regulation.

**Management's Response:** This is a new policy requirement for the agency. A written policy will be enacted and followed per MDHHS's guidance.

**Person Responsible  
for Implementation:** CEO

**Anticipated  
Completion Date:** December 2018

### **3. Misclassification of Supplies and Materials as Other Expenses**

The Agency improperly classified its supplies and materials as other expenses on its FSR. The MDHHS Financial Status Report Preparation Instructions define supplies and materials in Section IV. Form Preparation, Part E.4 as, "Use for all consumable and short-term items and equipment items with a cost of less than five thousand dollars (\$5,000) each. This includes office, printing, janitorial, postage, and education supplies; medical supplies; contraceptives and vaccines; tape and gauze; educational films, etc., according to the requirements of each applicable program." Also, Part E.7 defines other expenses as, "This category includes other allowable costs incurred for the benefit of the program. Identify on the available lines the same items identified in the approved Program Budget." During our review, we noted that the Agency overreported supplies and materials by \$154 and underreported other expenses by \$154 on its FY 2017 FSR. The expenditures offset each other resulting in no grant impact. The Agency did not have sufficient controls to ensure that all of its expenditures were classified and reported on the appropriate line item. We recommend that the Agency implement policies and procedures to ensure that all expenditures are properly classified.

**Management's Response:** Quality Assurance Manager reviews monthly expense report before submission of monthly FSR to correct any misallocations/expense errors prior to FSR submission.

**Person Responsible**

**for Implementation:** CEO, CPA, Quality Assurance Manager

**Anticipated**

**Completion Date:** December 2018