



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT, REIMBURSEMENT AND QUALITY ASSURANCE
CAPITOL COMMONS CENTER • 400 SOUTH PINE • LANSING, MICHIGAN 48913

NICK LYON
DIRECTOR

May 14, 2018

Dale Ernst, Chief Financial Officer
Community First Health Centers
58144 Gratiot Avenue
PO Box 480430
New Haven, Michigan 48048

Dear Mr. Ernst:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Community First Health Centers WIC Program for the period October 1, 2015 through September 30, 2016.

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 Corrective Action Plans. The Corrective Action Plans include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on MDHHS's website at:
http://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html.

Thank you for the cooperation extended throughout this audit process.

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 Section
Audit Division

cc: Debra Hallenbeck, Director, Audit Division
Brittany LaRue, Manager, Financial Management & FMNP Unit
Bryce Wooton, Auditor, Population Health and Community Services Section
Matthew Tompkins, Auditor, Population Health and Community Services Section
Robert Bertrand, Accountant, Community First Health Centers

Audit Report

Community First Health Centers
(Formerly Downriver Community Services, Inc.)

WIC and WIC Breastfeeding Programs

October 1, 2015 – September 30, 2016



Bureau of Audit, Reimbursement, and Quality Assurance

Audit Division

May 2018

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>Financial Reporting</u>	2
1. Total Actual Program Expenditures Not Reported on FSRs.....	2
2. Non-Compliant Allocation of Indirect Costs	3
3. Insufficient Allocation Policy and Supporting Documentation for Direct Expenditures	4
4. Unallowable Gift Purchased for Staff and Board Members (Repeat).....	5
<u>MDHHS Shares of Cost and Balance Due</u>	6
Statement of Grant Program Revenues and Expenditures – WIC	7
Statement of Grant Program Revenues and Expenditures – WIC Breastfeeding	8
Corrective Action Plans	9
Comments and Recommendations	13

DESCRIPTION OF AGENCY

Community First Health Centers (formerly Downriver Community Services, Inc.) (Agency) is organized as a not-for-profit agency under the provisions of Section 501(c) (3) of the Internal Revenue Code. The Agency's administrative office is in New Haven, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

FUNDING METHODOLOGY

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

The Women, Infants, and Children (WIC) Program was funded by MDHHS grant funds. Grant funding from MDHHS 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 financial reporting, and to determine the MDHHS shares of WIC Program costs. The following were the specific objectives of the audit:

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

SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal period October 1, 2015 to September 30, 2016. Our review procedures included the following:

- Reviewed the most recent Agency Single Audit report for any WIC Programs concerns.
- Reviewed the completed Subrecipient 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 procedure.
- Reviewed WIC equipment inventory records.
- 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

FINANCIAL REPORTING

Objective 1: To assess the Agency's effectiveness in reporting its WIC Program financial activity to MDHHS in accordance with applicable Department of Health and Human Services requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Agency was not effective in reporting its WIC Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. We identified the following exceptions: total actual program expenditures not reported on FSRs (Finding 1), non-compliant allocation of indirect costs (Finding 2), insufficient allocation policy and supporting documentation for direct expenditures (Finding 3), and unallowable gift purchased for staff and board members (Finding 4) (repeat).

Finding

1. Total Actual Program Expenditures Not Reported on FSRs

The Agency's FSRs did not reconcile with its accounting records. Also, the Agency did not report all its WIC and WIC Breastfeeding Program expenditures and source of funds.

Title 2 CFR 200.302 (b) states, "The financial management system of each non-Federal entity must provide for the following... (2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in 200.327 Financial reporting and 200.328 Monitoring... (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation." It also states in the MDHHS grant agreement, Part IV Financial Requirements, Section C. Financial Status Report Submission, "The monthly FSRs must reflect total actual program expenditures, regardless of the source of funds."

During our review, we noted the following discrepancies when we reconciled the final FSR expenditure categories to its related WIC general ledger accounts:

- Salaries and wages is higher on the FSR by \$2,685.
- Fringe benefits is higher on the FSR by \$177.
- Other expenses is higher on the general ledger by \$19,263.

We also noted the following discrepancies when we reconciled the final FSR expenditure categories to its related WIC Breastfeeding general ledger accounts:

- Salaries and wages is higher on the general ledger by \$329.
- Other expenses is higher on the general ledger by \$1,203.

The Agency did not have sufficient controls in place to ensure that the FSRs reconciled with its WIC Programs accounting records.

While the line item amounts reported on the FSRs did not agree with the WIC and WIC Breastfeeding Programs general ledgers, total expenditures for both programs exceeded the total FSRs reported amounts therefore there is no impact on grant funding. Adjustments are shown on the attached Statements of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency implement sufficient controls and procedures to ensure that the FSRs reconcile with its accounting records. We also recommend that the Agency report all WIC and WIC Breastfeeding Programs expenditures and source of funds to ensure compliance with Federal regulations and the State's grant agreement.

Finding

2. Non-Compliant Allocation of Indirect Costs

The Agency did not properly allocate its joint costs to all benefitting programs.

Title 2 CFR 200, Appendix IV, Section B.4 states, "a. Some nonprofit organizations treat all costs as direct costs except general administration and general expenses...b. This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each Federal award or other activity."

During our review, we noted that the Agency uses the direct allocation method for its joint costs, however the salaries and fringe benefits for the administrative and building maintenance employees were not properly allocated to the WIC Breastfeeding Program.

Recommendation

We recommend the Agency properly allocate joint costs to all benefitting programs to ensure compliance with Federal regulation.

Finding

3. Insufficient Allocation Policy and Supporting Documentation for Direct Expenditures

The Agency did not implement a sufficient allocation policy to support its WIC Program expenditures. Also, the Agency did not maintain source documentation to support the allocated expenditures to the WIC Program.

Title 2 CFR Part 200.403 Factors affecting allowability of costs states, "...costs must meet the following general criteria...(a) Be necessary and reasonable for the performance of the Federal award...(c) Be consistent with policies and procedures that apply uniformly to both federally-financed and other activities of the non-Federal entity. (d) Be accorded consistent treatment...(g) Be adequately documented." Also, Title 200.302 states, "... (b) The financial management system of each non-Federal entity must provide for the following...(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must be...supported by source documentation."

During our review, we noted that for 4 (16%) of 25 WIC Program expenditures reviewed, the Agency could not support the allocation methodology. For example:

- 1 of the 4 expenses noted above was a mortgage interest expense allocated to WIC based on square footage. The Agency allocated the interest expense at 14.36%, however the actual square footage percentage for WIC was 21.1%.
- 2 of the 4 expenses noted above were depreciation expenditures allocated to the WIC Program. However, the Agency was unable to identify which of the assets on its fixed asset schedule were related to the WIC Program and which assets were included in the calculation to determine the monthly depreciation expense charged to the WIC Program.
- 1 of the 4 expenses noted above was an invoice for \$1,551 for backpacks and water bottles handed out to clients at regional health fairs. The Agency allocated \$200 (12.9%) of the costs to the WIC Program based on an unsupported allocation percentage.

In addition, for all the aforementioned expenditures, we noted that the Agency did not maintain the workbooks to support any of the allocated percentages noted above. We also noted that the Agency was unable to recreate the calculations to support the allocated amounts recorded.

Recommendation

We recommend that the Agency implement an allocation policy to support its WIC Program expenditures. We also recommend that the Agency maintain sufficient source documentation to support its allocated expenditures to the WIC Program, to ensure compliance with Federal regulations.

Finding

4. Unallowable Gift Purchased for Staff and Board Members (Repeat)

The Agency recorded an unallowable expense to the WIC Program. Also, the Agency did not have documented policies to support employee relations expenditures charged to Federal funding sources.

Title 2 CFR 200.403 Factors affecting allowability of costs states that costs must meet the following general criteria: “(a) Be necessary and reasonable for the performance of the Federal award and be allocable thereto under these principles.” Also in Title 2 CFR 200.437(a) it states, “Costs incurred in accordance with the non-Federal entity’s documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable.”

During our review, we noted a \$2,129 purchase for Thanksgiving turkeys distributed to staff and board members, with \$181 of the purchase allocated to the WIC Program. The Agency recorded the expense to the staff relations/promotion account. We also noted that the Agency did not document any policies for the improvement of working conditions, employer-employee relations, employee health and performance to support any expenditures recorded to staff relations.

This is a repeat finding from the 2014 Audit Report in which the Agency’s corrective action plan was not to charge unallowable gift related expenditures to any Federal funding. However, this has continued, and the Agency never documented any policy to support employee relation expenditures or developed policies to prevent the purchase of staff related gifts charged to Federal funding sources.

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

Recommendation

We again recommend that the Agency record only allowable expenses to the WIC Program. We also recommend that if the Agency determines it will continue its staff relations program that they document employee relations policies to ensure compliance with Federal regulation.

MDHHS SHARES OF COST AND BALANCE DUE

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

Conclusion: The MDHHS obligations under the WIC Program and WIC Breastfeeding Program for fiscal year ended September 30, 2016 are \$499,768 and \$19,439; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments but none affected WIC Program grant funding.

**Downriver Community Services
WIC Special Supplemental
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$509,343	\$499,768 1		\$499,768
Local Funds	\$0	\$0	\$16,220 2, 3	\$16,220
TOTAL REVENUES	\$509,343	\$499,768	\$16,220	\$515,988
EXPENDITURES:				
Salary & Wages	\$309,751	\$292,718	(\$2,685) 2	\$290,033
Fringe Benefits	\$79,663	\$71,437	(\$177) 2	\$71,260
Supplies & Materials	\$14,000	\$14,757		\$14,757
Travel	\$3,900	\$3,531		\$3,531
Other	\$102,029	\$117,325	\$19,082 2, 3	\$136,407
TOTAL EXPENDITURES	\$509,343	\$499,768	\$16,220	\$515,988

1 Actual MDHHS payments.

2 Total Actual Program Expenditures Not Reported on FSR (Finding 1)

3 Unallowable Gift Purchased for Staff and Board Members (Finding 4)(Repeat)

**Downriver Community Services
WIC Breastfeeding Peer Counselor
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$19,439	\$19,439 ¹		\$19,439
Local Funds	\$0	\$0	\$1,532 ²	\$1,532
TOTAL REVENUES	\$19,439	\$19,439	\$1,532	\$20,971
EXPENDITURES:				
Salary & Wages	\$17,170	\$17,027	\$329 ²	\$17,356
Fringe Benefits	\$2,052	\$1,829		\$1,829
Travel	\$217	\$583		\$583
Other	\$0	\$0	\$1,203 ²	\$1,203
TOTAL EXPENDITURES	\$19,439	\$19,439	\$1,532	\$20,971
¹ Actual MDHHS payments. ² Total Actual Program Expenditures Not Reported on FSR (Finding 1)				

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: **Total Actual Program Expenditures Not Reported on FSRs**

The Agency's FSRs did not reconcile with its accounting records. Also, the Agency did not report all its WIC and WIC Breastfeeding Program expenditures and source of funds.

Recommendation: Implement sufficient controls and procedures to ensure that the FSRs reconciles with its accounting records. Also, report all WIC and WIC Breastfeeding Programs expenditures and source of funds to ensure compliance with Federal regulations and the State's grant agreement.

Comments: This was the result of Community First Health Centers' expectation that grant funds should be sufficient to cover expenditures and were unable to report funds in the local funds line due to not budgeting any dollars in this line in EGrAMS.

Corrective Action: In the future, Community First Health Centers will budget for local funds to ensure that expenditures in excess of grant funding will be properly reported on the FSR.

Person Responsible for Implementation: Lynn Kuligowski and Robert Bertrand

Anticipated Completion Date: FY 2019 budget. Will try to implement for current FY 2018 budget if allowed to amend in EGrAMS.

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: **Non-Compliant Allocation of Indirect Costs**

The Agency did not properly allocate its joint costs to all benefitting programs.

Recommendation: Properly allocate joint costs to all benefitting programs to ensure compliance with Federal regulation.

Comments: Community First Health Centers agrees with the finding.

Corrective Action: WIC Breastfeeding has been added to the time and effort reporting system to ensure that administrative indirect costs are allocated to the grant.

**Person Responsible
for Implementation:** Ashleigh Ceto, Accountant

**Anticipated
Completion Date:** Effective as of April 23, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Insufficient Allocation Policy and Supporting Documentation for Direct Expenditures

The Agency did not implement a sufficient allocation policy to support its WIC Program expenditures. Also, the Agency did not maintain source documentation to support the allocated expenditures to the WIC Program.

Recommendation: Implement an allocation policy to support its WIC Program expenditures. Also, maintain sufficient source documentation to support its allocated expenditures to the WIC Program, to ensure compliance with Federal regulations.

Comments: This was a result of the allocation determination changing during the grant year resulting in two different allocation determinations.

Corrective Action: Expenses are charged to the grant based upon an allocation method approved by the Chief Financial Officer. Allocations are based on documented relationships including percentage of square footage for occupancy related costs and percentage of budgeted total FTE's for administrative expenditures unless there is an alternative method documented at the time of the expenditure.

Person Responsible for Implementation: Dale Ernst, Chief Financial Officer

Anticipated Completion Date: Has already been implemented.

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: **Unallowable Gift Purchased for Staff and Board Members (Repeat)**

The Agency recorded an unallowable expense to the WIC Program. Also, the Agency did not have documented policies to support employee relations expenditures charged to Federal funding sources.

Recommendation: Again, record only allowable expenses to the WIC Program. Also, if the Agency determines it will continue its staff relations program that they document employee relations policies to ensure compliance with Federal regulation.

Comments: None

Corrective Action: Human Resource Department is writing an agency policy for employee relations for the Board of Directors approval which will allow for such charges to the grant.

Person Responsible for Implementation: Human Resource Director

Anticipated Completion Date: June 1, 2018

MDHHS Response: None

Comments and Recommendations

1. Insufficient Controls Over its Financial Management Systems

The Agency did not have sufficient controls over its financial management systems in place to ensure all WIC and WIC Breastfeeding expenditures were accurately recorded and reported on its FSRs.

Title 2 CFR 200.62 states, “Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal Awards:

(a) Transactions are properly recorded and accounted for, in order to:

- (1) Permit the preparation of reliable financial statements and Federal reports;
- (2) Maintain accountability over assets; and
- (3) Demonstrate compliance with Federal statutes, regulations and terms and conditions of the Federal award.”

Also, Title 2 CFR 200.302 states, “...non-Federal entity’s financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.”

The Agency’s insufficient controls over its financial management systems could have contributed to the exceptions noted in Findings 1, 2, and 3. We recommend that the Agency implement sufficient controls over its financial management systems to ensure compliance with Federal regulations.

Management Response:

Community First Health Centers management has modified its internal processes to address findings 1, 2, and 3.

2. Insufficient Written Procedures for Determining Cost Allowability

The Agency did not have sufficient policies and procedures to determine cost allowability. Title 2 CFR 200.302(b)(7) requires the financial management system provide “Written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this Part and the terms and conditions of the Federal award.” We recommend the Agency develop sufficient written procedures for determining cost allowability to ensure compliance with Federal regulation.

Management Response:

Community First Health Centers is writing a policy for determining the allowability of costs in accordance with Subpart E – Cost Principles of this Part and the terms and conditions of the Federal award.