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STATE OF MICHIGAN
DEPARTMENT OF HEALTH & HUMAN SERVICES
BUREAU OF AUDIT
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NICK LYON
DIRECTOR

November 27, 2018

Mr. Warren C. Swartz, Tribal President
Keweenaw Bay Indian Community
102 Superior Avenue
Baraga, Michigan 49908

Dear Mr. Swartz:

Attached is our final report from the Michigan Department of Health and Human Services audit of the Keweenaw Bay Indian Community Women, Infants, and Children (WIC) Program for the period October 1, 2016 through September 30, 2017.

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 the MDHHS 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,

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

Attachment

cc: Debra Hallenbeck, Director, Audit Division
Christina Herring, Director, WIC Division
Brittany LaRue, Manager, Financial Management and FMNP Unit
Kelly Voegeding, Financial Analysis, WIC Division
Bryce Wooton, Auditor, Population Health and Community Services Program
Don Larson, Grant Accountant, Keweenaw Bay Indian Community
Jodi Shafer, Grant Accountant, Keweenaw Bay Indian Community
Lena Wascher, WIC Coordinator, Keweenaw Bay Indian Community

Audit Report

Keweenaw Bay Indian Community WIC Program

October 1, 2016 – September 30, 2017



Bureau of Audit

Audit Division
November 2018

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DESCRIPTION OF AGENCY

The Keweenaw Bay Indian Community (Tribe) is governed by the Tribal Council. The Tribe is located on the Keweenaw Bay Reservation in Baraga County, and the administrative office is located in Baraga, Michigan. The Tribe provides a wide variety of general governmental and grant activities including the Women, Infants, and Children (WIC) Supplemental Food Program.

FUNDING METHODOLOGY

The Tribe 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.

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 share of WIC Program costs. Following are the specific objectives of the audit:

1. To assess the Tribe'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 share of costs for the WIC Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Tribe.

SCOPE AND METHODOLOGY

We examined the Tribe's records and activities for the fiscal period October 1, 2016 to September 30, 2017. Our review procedures included the following:

- Reviewed the most recent Keweenaw Bay Indian Community Single Audit report for any WIC Program concerns.
- Reviewed the completed Subrecipient Questionnaire, with a verification of select items.
- 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 equipment purchases over \$2,500 for the WIC Program.
- Reviewed indirect cost 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 Tribe'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.

Conclusion: The Tribe was generally 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. However, we identified the following exceptions: total actual program expenditures not reported on FSR (finding 1), and payroll distributions inappropriately based on budget allocations (finding 2).

Finding

1. Total Actual Program Expenditures Not Reported on FSR

The Tribe did not have sufficient controls in place to ensure that the WIC Program accounting records and FSR reflected total actual program expenditures.

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." The MDHHS grant agreement, Part II, Section IV Financial Requirements, Subsection C. Financial Status Report Submission, states, "The monthly FSRs must reflect total actual program expenditures, regardless of the source of funds." Title 2 CFR 200.402 regarding Composition of costs states, "The total cost of a Federal award is the sum of the allowable direct and allocable indirect costs less any applicable credits."

During our review, we noted various exceptions regarding reported direct and indirect program expenditures as noted below:

- 1.) Reported expenditures agreed with general ledger amounts, but the general ledger did not include a complete disclosure of the financial results of the WIC Program. The general ledger only included expenditures up to the total grant funding amount, with any excess expenditures recorded to another program. Additionally, any unbudgeted line items (e.g. equipment, other expenditures, local revenue) are not reported due to electronic grant reporting restrictions. We were unable to easily determine unreported amounts.

- 2.) At least one additional employee worked in the WIC Program during the fiscal year under review (Breastfeeding Support Group staff member), but this employee was not a budgeted employee under the WIC Program and personnel costs for this employee were never charged to the WIC Program during the fiscal year. The WIC Coordinator was the only employee with documented time worked in the WIC Program and charged to the WIC Program. We were unable to determine unreported personnel costs since we did not receive a complete list of all WIC Program employees, and there was no other documented time worked in the WIC Program besides the WIC Coordinator.
- 3.) Indirect cost reporting was limited to the budgeted amount. The Tribe applied their federally approved indirect cost rate of 29.51% for FYE 2017 to salaries and wages, but capped their reporting to the budgeted amount of \$9,513. The Tribe under-reported indirect costs on the WIC Program FSR by \$533.

Since additional personnel, equipment, and other expenditures could not be accurately determined, only an adjustment to properly apply the federally approved indirect cost rate is shown on the attached Statement of Grant Program Revenues and Expenditures. Any additional reported costs would have no impact on grant funding since grant funds had already been fully exhausted.

Recommendation

We recommend that the Tribe implement sufficient controls and procedures to ensure that the accounting records and FSR reflect total actual program expenditures and source of funds to ensure compliance with Federal regulations and the State's grant agreement.

Finding

2. Payroll Distributions Inappropriately Based on Budget Allocations

The Tribe does not require employees to document actual time worked on a program or multiple programs and distributes employees' payroll 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...(vii.) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award...(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.” Additionally, 2 CFR 200.431(b) for Fringe benefits specific to leave states, “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, family-related leave, sick leave, holidays, court leave, military leave, administrative leave, and other similar benefits, are allowable if... (2) The costs are equitably allocated to all related activities, including Federal awards.” Furthermore, 2 CFR 200.430(c) states, “The cost of fringes benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker’s compensation insurance...; pension plan costs...; and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, must be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities...”

During our audit, we noted that the Tribe determines budgeted program FTE percentages for its WIC Program employee that works on multiple programs. These percentages are used throughout the fiscal year to allocate payroll for this employee. Compensation can be allocated to benefitting programs using predetermined budgeted percentages for interim accounting purposes, but 2 CFR 200 requires adjustments to actual. During our review of employee time records, we noted that time sheets do not reflect the actual work performed by the employee on each program when working on multiple programs. Rather, time sheets state the total hours worked during that pay period and the hours are simply allocated to benefitting programs based on the predetermined budgeted percentages. Since time records do not show actual activity of the employee, the Tribe is unable to properly conduct an analysis of actual activity to determine if any adjustments are necessary.

Recommendation

We recommend that the Health Department implement sufficient procedures and controls to ensure payroll is properly allocated to benefitting programs based on actual activity to ensure compliance with Federal regulations.

MDHHS SHARE OF COSTS AND BALANCE DUE

Objective 2: To determine the MDHHS share of costs for the WIC Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDHHS obligation under the WIC Program for fiscal year ended September 30, 2017, is \$68,297. The attached Statement of MDHHS Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made adjustments but none affected WIC Program grant funding.

**Keweenaw Bay Indian Community
WIC Special Supplemental
Statement of Grant Program Revenues and Expenditures
10/1/16 - 9/30/17**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$68,297	\$68,297 ¹		\$68,297
Local Funds	\$0	\$0	\$533 ²	\$533
TOTAL REVENUES	\$68,297	\$68,297	\$533	\$68,830
EXPENDITURES:				
Salary & Wages	\$32,236	\$34,041		\$34,041
Fringe Benefits	\$14,175	\$12,680		\$12,680
Travel	\$5,300	\$3,394		\$3,394
Supplies & Materials	\$5,453	\$7,048		\$7,048
Contractual	\$1,620	\$1,620		\$1,620
Indirect Costs	\$9,513	\$9,513	\$533 ²	\$10,046
TOTAL EXPENDITURES	\$68,297	\$68,297	\$533	\$68,830

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 FSR**

The Tribe did not have sufficient controls in place to ensure that the WIC Program accounting records and FSR reflected total actual program expenditures.

Recommendation: Implement sufficient controls and procedures to ensure that the accounting records and FSR reflect total actual program expenditures and source of funds to ensure compliance with Federal regulations and the State's grant agreement.

Comments: The Tribe was unable to report expenditures and local funding sources that exceeded the budgeted amount in MDHHS's electronic grant administration and management system (EGrAMS).

Corrective Action: The Tribe will work with both EGrAMS and WIC Program staff to ensure that all program expenditures and funding sources are accurately budgeted and reported.

Person Responsible for Implementation: Don Larson, Lena Wascher, and Soumit Pendharkar

Anticipated Completion Date: April 1, 2019

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

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

The Tribe does not require employees to document actual time worked on a program or multiple programs and distributes employees' wages to programs based on budget allocations with no adjustments to actual work performed.

Recommendation: Implement sufficient procedures and controls to ensure wages are properly allocated to benefitting programs based on actual activity to ensure compliance with Federal regulations.

Comments: The Tribe's WIC employee was paid for 48 hours each pay period during the 2017 WIC agreement. This corresponded to the days scheduled and worked in the WIC program (Tuesday, Wednesday, and Friday). The distribution code WICCOR is based on hours not percentages. This was the distribution code used in calculating the WIC employee's earnings.

Corrective Action: Additional detail will be included on Time and Attendance Reports to reflect actual activity.

Person Responsible for Implementation: Lena Wascher and Soumit Pendharkar

Anticipated Completion Date: October 1, 2018

MDHHS Response: None