

Audit Report

Calhoun County Health Department WIC and WIC Breastfeeding Programs

October 1, 2013 – September 30, 2014



Office of Audit
Quality Assurance and Review Section
May 2015



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

NICK LYON
DIRECTOR

May 28, 2015

James A. Rutherford, RS, MPA, Health Officer
Calhoun County Public Health Department
190 E. Michigan Avenue
Battle Creek, Michigan 49014

Dear Mr. Rutherford:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Calhoun County Public Health Department 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 recommendation; Statement of Grant Program Revenues and Expenditures; and Corrective Action Plans. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans include the agency's paraphrased response to the Preliminary Analysis, and the Office of Audit'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
Office of Audit

Enclosure

cc: Stan Bien, Director, WIC Division
Pam Myers, Director, Office of Audit
Keith Rubley, Auditor, Office of Audit

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DESCRIPTION OF AGENCY

The Calhoun County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Calhoun County, and the administrative office is located in Battle Creek, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Calhoun County. The Health Department provides community health program services to the residents of Calhoun 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. 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 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 MDCH 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. Our review procedures included the following:

- Reviewed the most recent Calhoun County Single Audit report for any WIC Program concerns.
- Reviewed the completed fiscal review questionnaire.
- Reconciled the WIC Program Financial Status Reports (FSR) to the accounting records.
- Reviewed payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed WIC 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 effective in establishing and implementing internal controls over the WIC Program.

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 was generally effective in reporting their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles, except in the reporting of fringe benefits (Finding 1), termination pay (Finding 2), and the County Central Service Cost Allocation Plan charges (Finding 3).

Finding

1. Improper Allocation of Fringe Benefits

The Health Department did not allocate fringe benefit costs to all benefitting 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). According to OMB Circular A-87, Appendix B, Section 8. d. (5):

The cost of fringe 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, whether treated as indirect costs or as direct costs, shall 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.

The Health Department charged fringe benefit costs to programs based on employees' primary business unit or program during the payroll period rather than equitably allocating the costs to all programs worked by the employees.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all fringe benefit costs are properly allocated to all benefitting programs.

Finding

2. 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 primary business unit or 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, and the resulting impact would likely be immaterial after charging all termination costs as an indirect expense and allocating them to all activities of the Health Department.

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

3. County Central Service Cost Allocation Plan Charges Overstated

The Health Department included an estimated amount of County Central Service Cost Allocation Plan (CCSCAP) charges in their indirect administration cost pool that far exceeded the amount supported by their County's Central Service Cost Allocation Plans.

The Health Department's contract with MDCH (Part II, Section IV, Part D) requires that the FSR report total actual program expenditures. 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). For costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225. According to OMB Circular A-87, Appendix A, Section C. 3. a.:

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 Health Department reported \$159,170 in CCSCAP charges for the period October 1, 2013 through September 30, 2014. The allocable portions of the County's Central Service Cost Allocation Plans for 2011 and 2012 (those allocable to the subject period) totaled only \$11,846. Accordingly, the CCSCAP charges were overstated \$147,324.

A 10-year analysis was provided by the Health Department showing overcharges in some years and undercharges in others with a total net impact of an \$870 undercharge. Accordingly, no adjustment is being proposed for this audit. However, future charges must be supported by the County Central Service Cost Allocation Plan rather than estimates.

Recommendation

We recommend the Health Department adopt policies and procedures to ensure that the CCSCAP charges are based on amounts supported by the County's Central Service Cost Allocation Plans rather than estimates.

MDCH SHARE OF COSTS

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 \$748,683 for WIC services and \$43,541 for WIC Breastfeeding. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

Calhoun 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	\$769,253	\$748,683 ¹	\$0	\$748,683
Local Funds Other	\$8,926	\$0	\$0	\$0
TOTAL REVENUES	\$778,179	\$748,683	\$0	\$748,683
EXPENDITURES:				
Salary & Wages	\$419,354	\$423,446	\$0	\$423,446
Fringe Benefits	\$146,774	\$126,658	\$0	\$126,658
Supplies	\$8,000	\$8,085	\$0	\$8,085
Travel	\$10,000	\$4,860	\$0	\$4,860
Communications	\$6,800	\$16,991	\$0	\$16,991
Space Cost	\$20,940	\$16,282	\$0	\$16,282
Other Costs	\$30,440	\$23,906	\$0	\$23,906
Indirect Costs	\$135,871	\$128,455	\$0	\$128,455
TOTAL EXPENDITURES	\$778,179	\$748,683	\$0	\$748,683

¹ Actual MDCH payments.

Calhoun 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	\$43,541	\$43,541 ¹	\$0	\$43,541
Other Revenue	\$0	\$0	\$0	\$0
Local Funds Other	\$13,309	\$446	\$0	\$446
TOTAL REVENUES	\$56,850	\$43,987	\$0	\$43,987
EXPENDITURES:				
Salary & Wages	\$35,199	\$29,179	\$0	\$29,179
Fringe Benefits	\$8,800	\$3,920	\$0	\$3,920
Supplies	\$100	\$216	\$0	\$216
Travel	\$700	\$1,100	\$0	\$1,100
Communications	\$2,000	\$1,093	\$0	\$1,093
Other Expense	\$371	\$204	\$0	\$204
Indirect Costs	\$9,680	\$8,275	\$0	\$8,275
TOTAL EXPENDITURES	\$56,850	\$43,987	\$0	\$43,987

¹ Actual MDCH payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Improper Allocation of Fringe Benefits

The Health Department did not allocate fringe benefit costs to all benefitting programs.

Recommendation: Adopt policies and procedures to ensure that all fringe benefit costs are properly allocated to all benefitting programs.

Health Department

Comments: We were told the fringes for these employees who fill in when needed are charged to their primary program.

Corrective Action: The Health Department will assess how the software program splits fringe costs based on the hours worked in each program, and will take corrective action if the software is found to not be splitting out fringes in the appropriate programs.

**Anticipated
Completion Date:** 6/30/2015

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

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.

**Health Department
Comments:** None

Corrective Action: The Health Department will meet with Human Resources to address this issue and create a new Health Department policy that will charge termination expenses to Administrative indirect.

**Anticipated
Completion Date:** 10/1/2015

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: **County Central Service Cost Allocation Plan Charges Overstated**

The Health Department included an estimated amount of County Central Service Cost Allocation Plan (CCSCAP) charges in their indirect administration cost pool that far exceeded the amount supported by their County's Central Service Cost Allocation Plans.

Recommendation: Adopt policies and procedures to ensure that the CCSCAP charges are based on amounts supported by the County's Central Service Cost Allocation Plans rather than estimates.

**Health Department
Comments:**

Calhoun County Finance is responsible for the calculation, budget, and expense charges of the County Central Service Cost Allocation Plan. The Health Department has no control over how the expenses are allocated.

Corrective Action: The Health Department will meet with County Finance to determine what, if any changes need to be made regarding the calculation of the County Central Service Cost Allocation Plan.

**Anticipated
Completion Date:** 1/1/2016

MDCH Response: During our fieldwork, we were informed by County personnel that the actual amount of County Central Services will be charged to the Health Department.