

Audit Report

Central Michigan District Health Department
WIC & Family Planning Programs

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review
May 2013



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JAMES K. HAVEMAN
DIRECTOR

May 9, 2013

Mary Kushion, MSA, Health Officer
Central Michigan District Health Department
2012 E. Preston Avenue
Mt. Pleasant, MI 48858

Dear Ms. Kushion:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC and Family Planning Programs for the period October 1, 2011 through September 30, 2012.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statement of MDCH 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,

A handwritten signature in cursive script that reads "Debra S. Hallenbeck".

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

Enclosure

cc: Stan Bien, Director, WIC Division
Paulette Dobynnes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
Pam Myers, Director, Office of Audit
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DESCRIPTION OF AGENCY

The Central Michigan District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Isabella County, which is the reporting entity, and the administrative office is located in Mount Pleasant, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Isabella, Arenac, Clare, Gladwin, Osceola, and Roscommon Counties. The Health Department provides community health program services to the residents of Isabella, Arenac, Clare, Gladwin, Osceola and Roscommon Counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Bioterrorism/Emergency Preparedness, Medicaid Outreach, Women Infant and Children Supplemental Food Program (WIC), and Family Planning Program.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs administered through the Michigan Department of Community Health (MDCH), which consist of federal and state funds. MDCH provides 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 Program is federal funding under federal catalog number 10.557, and is first source funding, subject to performance requirements. That is, reimbursement from MDCH is based upon the understanding that a certain level of performance (measured in caseload established by MDCH) must be met in order to receive full reimbursement of costs (net of program income and other earmarked sources) up to the contracted amount of grant funds prior to any utilization of local funds.

The Family Planning Program was funded by MDCH Grant Funds, First and Third Party Fees and Collections, Local and Other Revenue. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog number 93.217, and is subject to performance requirements.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the Family Planning Program and WIC Program internal controls and financial reporting, and to determine the MDCH shares of WIC Program and Family Planning 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 and Family Planning Programs.
2. To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning Program 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 Program and Family Planning 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, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program or WIC Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program and WIC Program 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 indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed Family Planning Medical Supply inventory records.
- Reviewed Family Planning billing and collection of fees, and collection of donations.

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 and Family Planning Programs.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the WIC & Family Planning Programs. We noted one exception related to the lack periodic verification of equipment inventory (Finding 1).

Finding

1. Lack of Periodic Inventory Verification

The Health Department does not perform biennial equipment inventory verifications as required by OMB Circular A-87.

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 11. h: *"Physical inventories must be taken at least once every two years (a statistical sampling approach is acceptable) to ensure that assets exist, and are still in use."*

The Health Department's depreciation schedule is used to list the inventory of all equipment and it is updated when new equipment is purchased and when old equipment is disposed of. When new equipment is purchased, the Health Department will assign a tag number to it and will remove it when it is no longer in use. The Health Department has no procedure in place to verify if the equipment listed on the depreciation schedule is still in use. To ensure accountability over capital assets and compliance with Federal regulations, the Health Department must perform physical inventories of equipment at least once every two years.

Recommendation

We recommend that the Health Department implement a periodic equipment inventory verification to ensure that equipment items exist and are still in use.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning 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 generally reported their WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted exceptions regarding the allocation of salaries and wages (Finding 2) and using predetermined FTE's as a basis for allocating personal health administration expenses (Finding 3).

Finding

2. Incorrect Allocation for Salaries and Wages (Repeat)

The Health Department allocates salaries and wages based on a budgeted percent allocation and does not adjust charges to the actual cost as required by OMB Circular A-87.

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). OMB Circular, Appendix B, Section 8. h. (5.) (e.) states the following with respect to salary and wage allocations:

Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes provided that....

- (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the difference between budgeted and actual costs are less than ten percent; and*
- (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.*

The Health Department uses budgeted percentages for each employee to allocate salary and wage costs to programs for the first quarter of the fiscal year. These budgeted percentages are reviewed at the end of the quarter. If there are significant differences, the second quarter percentages are adjusted to reflect the new percentages. The same procedure is used for the third and fourth quarters. The Health Department does not, however, adjust salaries and wages to actual cost.

Recommendation

We again recommend that the Health Department implement policies and procedures to ensure salary and wage costs are adjusted to actual on a quarterly basis or annually if the difference between budgeted and actual cost is less than ten percent.

Finding

3. Overstated Personal Health Administration Costs

The Health Department allocates Personal Health Administration costs to programs based on predetermined FTEs of the clinic programs rather than actual benefits derived as required by OMB Circular A-87.

The Health Department allocates Personal Health Administration costs to all programs with clinic related activities. The Health Department allocates these expenses based on a percentage of predetermined FTEs of the clinic programs. These expenses need to be allocated in accordance with the relative benefits received as required by OMB Circular A-87.

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section C. 3. Allocable Costs, “*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 can use predetermined FTEs as a distribution base on an interim basis. At year end, an adjustment must be made to adjust the allocation to be based on actual activity. We found that the Personal Health Administration expenses for WIC, WIC Breastfeeding, and Family Planning were overstated by \$10,795, \$6,969, and \$2,991, respectively, when using the predetermined FTEs rather than actual total salaries and fringes of the clinic programs as the distribution base. The Health Department has significant local funding for these programs, so the adjustments shown on the attached Statements of MDCH Grant Program Revenues and Expenditures did not affect MDCH funding.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all overhead expenses are allocated based on the relative benefits received as required by OMB Circular A-87.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the WIC Program and Family Planning Program 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, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2012 are \$892,141, \$199,000, and \$248,056, respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting MDCH funding.

Central Michigan District Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$892,141	\$892,141 ¹	\$0	\$892,141
Fees 1 st & 2 nd Party	\$700	\$912	\$0	\$912
Fees & Collections - 3 rd Party	\$8,000	\$16,269	\$0	\$16,269
Local Funds Other	\$230,384	\$34,588	(\$10,795)	\$23,793
TOTAL REVENUES	\$1,131,225	\$943,910	(\$10,795)	\$933,115
EXPENDITURES:				
Salary & Wages	\$512,662	\$441,850	\$0	\$441,850
Fringe Benefits	\$243,186	\$208,490	\$0	\$208,490
Supplies	\$12,000	\$11,294	\$0	\$11,294
Travel	\$9,000	\$10,050	\$0	\$10,050
Communications	\$9,000	\$8,575	\$0	\$8,575
Other Expenses	\$1,000	\$1,822	\$0	\$1,822
Indirect Costs	\$213,905	\$174,291	\$0	\$174,291
Other Cost Distributions	\$130,472	\$87,538	(\$10,795) ²	\$76,743
TOTAL EXPENDITURES	\$1,131,225	\$943,910	(\$10,795)	\$933,115

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Overstated Personal Health Administration Costs (Finding 3).

**Central Michigan District Health Department
WIC Breastfeeding/Peer Counseling Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$199,000	\$199,000 ¹	\$0	\$199,000
Local Funds Other	\$69,980	\$13,723	(\$6,969)	\$6,754
TOTAL REVENUES	\$268,980	\$212,723	(\$6,969)	\$205,754
EXPENDITURES:				
Salary & Wages	\$116,311	\$104,696	\$0	\$104,696
Fringe Benefits	\$64,389	\$38,562	\$0	\$38,562
Supplies	\$3,000	\$747	\$0	\$747
Travel	\$2,000	\$2,925	\$0	\$2,925
Communications	\$3,200	\$3,290	\$0	\$3,290
Other Expenses	\$0	\$236	\$0	\$236
Indirect Costs	\$51,138	\$38,393	\$0	\$38,393
Other Cost Distributions	\$28,942	\$23,874	(\$6,969) ²	\$16,905
TOTAL EXPENDITURES	\$268,980	\$212,723	(\$6,969)	\$205,754

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Overstated Personal Health Administration Costs (Finding 3).

Central Michigan District Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$248,056	\$248,056 ¹	\$0	\$248,056
Fees 1 st & 2 nd Party	\$55,000	\$52,249	\$0	\$52,249
Fees & Collections - 3 rd Party	\$390,000	\$356,354	\$0	\$356,354
Federal Cost Based Reimbursement	\$125,000	\$122,129	\$0	\$122,129
Local Funds Other	\$37,012	\$4,946	(\$2,991)	\$1,955
TOTAL REVENUES	\$855,068	\$783,734	(\$2,991)	\$780,743
EXPENDITURES:				
Salary & Wages	\$331,289	\$302,662	\$0	\$302,662
Fringe Benefits	\$132,937	\$110,334	\$0	\$110,334
Supplies	\$160,000	\$190,899	\$0	\$190,899
Travel	\$4,000	\$5,336	\$0	\$5,336
Communications	\$5,000	\$4,280	\$0	\$4,280
Other Expenses	\$1,700	\$7,813	\$0	\$7,813
Indirect Costs	\$131,376	\$110,683	\$0	\$110,683
Other Cost Distributions	\$88,766	\$51,727	(\$2,991) ²	\$48,736
TOTAL EXPENDITURES	\$855,068	\$783,734	(\$2,991)	\$780,743

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Overstated Personal Health Administration Costs (Finding 3).

Corrective Action Plan

Finding Number 1

Page Reference 3

Finding: **Lack of Periodic Inventory Verification**

The Health Department does not perform biennial equipment inventory verifications as required by OMB Circular A-87.

Recommendation: Implement a periodic equipment inventory verification to ensure that equipment items exist and are still in use.

Corrective Action: The Health Department will perform a physical inventory once every 2 years.

**Anticipated
Completion Date:** 09/30/2013

MDCH Response: None

Corrective Action Plan

Finding Number 2

Page Reference 4

Finding: **Incorrect Allocation for Salaries and Wages (Repeat)**

The Health Department allocates salaries and wages based on a budgeted percent allocation and does not adjust charges to the actual cost as required by OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure salary and wage costs are adjusted to actual on a quarterly basis or annually if the difference between budgeted and actual cost is less than ten percent.

Corrective Action: The Health Department has implemented actual time reporting for each pay period in the electronic system.

**Anticipated
Completion Date:** 01/01/2013

MDCH Response: None

Corrective Action Plan

Finding Number 3

Page Reference 4

Finding: **Overstated Personal Health Administration Costs**

The Health Department allocates Personal Health Administration costs to programs based on predetermined FTEs of the clinic programs rather than actual benefits derived as required by OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure that all overhead expenses are allocated based on the relative benefits received as required by OMB Circular A-87.

Corrective Action: The Health Department will establish a procedure for administration cost for personal health.

**Anticipated
Completion Date:** 09/30/2013

MDCH Response: None