

Audit Report

Chippewa County Health Department WIC & Family Planning Programs

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review Section
March 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

March 4, 2013

Mr. David Martin, RS, MPA
Health Officer/Environmental Health Director
Chippewa County Health Department
508 Ashmun St., Suite 120
Sault Ste. Marie, MI 49783

Dear Mr. Martin:

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, 2010 through September 30, 2011.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of MDCH Grant Program Revenues and Expenditures; Corrective Action Plans; and Comments and Recommendations. 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. The Comments and Recommendations section includes areas where we believe there are opportunities for the agency to further strengthen internal controls or to increase operating efficiencies.

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
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
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DESCRIPTION OF AGENCY

The Chippewa 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 Chippewa County, and the administrative office is located in Sault Ste. Marie, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Chippewa County. The Health Department provides community health program services to the residents of Chippewa County. 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, Breast and Cervical Cancer Control Program Coordination, Prenatal Outreach, Family Planning, Children's Special Health Care Services Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, Tobacco Control, Medicaid Outreach and Women Infants and Children (WIC) Supplemental Food 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.

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. 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 WIC Program was funded by MDCH Grant Funds, and Other Local Funds. 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.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC and Family Planning Program internal controls and financial reporting, and to determine the MDCH shares of WIC and Family Planning 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 Family Planning and WIC Programs.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program and 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.
3. To determine the MDCH shares of cost for the Family Planning and WIC Programs 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, 2010 to September 30, 2011. 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 building space costs for proper reporting and compliance with Federal requirements.
- 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 effective in establishing and implementing internal controls over the WIC and Family Planning Programs. We noted no internal control exceptions.

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 MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

Conclusion: The Health Department generally reported its WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted three financial reporting exceptions: the understatement of indirect costs (Finding 1), the reporting of unallowable bad debt expense (Finding 2), and the reporting of fees on the accrual basis (Finding 3).

Finding

1. Understated Indirect Costs

The Health Department understated indirect costs by excluding allowable depreciation from the indirect cost pool, and allocating indirect costs based on budget.

The MDCH Agreement, Part II, Section IV, D. requires that the FSR report total actual program expenditures regardless of the source of funds.

The MDCH Agreement, Part II, Section III. A. requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section F. Indirect Costs, "*Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.*"

The Health Department did not include allowable depreciation in their indirect cost calculation. The Health Department can expense depreciation on capital assets that have not already been included as an expense on an FSR. Also, the Health Department does not allocate indirect costs based on actual expenditures and relative benefits received as required by OMB Circular A-87. The Health Department calculates an indirect percentage using budgeted estimates and applies that percentage to actual expenditures. This method can be used only on an interim basis. The Health Department must calculate a new percentage at year end based on actual expenditures and adjust the year end indirect costs accordingly on the FSR. Indirect costs are allocated based on budget and adjustments to actual are not done if there are undercharges and there are no unused grant funds. Adjustments to actual are made only if charges were too high, or charges were too low and there are unused grant funds.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all allowable indirect expenses are allocated to programs, and the allocation is based on relative benefits received.

Finding

2. Unallowable Bad Debt Expense

The Health Department reported \$7,280 of bad debt expense for the Family Planning Program, which is unallowable according to OMB Circular A-87.

OMB Circular A-87, Appendix B, Section 5, states, “*Bad debts, including losses (whether actual or estimated) arising from uncollectable accounts and other claims, related collection costs, and related legal costs, are unallowable.*”

An adjustment removing the unallowable expense is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that bad debt expense is not reported as an expenditure on the FSR.

Finding

3. Misreported Fees

The Health Department reports fees on an accrual basis in violation of the MDCH Agreement which requires fees to be reported on a cash basis.

The MDCH Agreement, Part II, Section 1, B – Fees, requires the Health Department to “*Make reasonable efforts to collect 1st and 3rd party fees, where applicable, and report these as outlined by the Department’s fiscal procedures.*”

Per the MDCH Financial Status Report Instructions, Section I, “*The Financial Status Report is to be prepared reporting...revenue on an accrual basis, with the exception of fees which should be reported on a cash basis as received.*”

An adjustment to report fees on the cash basis is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure fees are reported on a cash basis.

MDCH SHARE OF COSTS

Objective 3: To determine the MDCH share of costs for the WIC and Family Planning Programs 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 and Family Planning Programs for fiscal year ended September 30, 2011, are \$208,660 and \$57,594, respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments impacting MDCH funding.

**Chippewa County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$208,660	\$208,660 ¹	\$0	\$208,660
Local and Other Funds	\$545	\$5	\$0	\$5
Local Non-LPHO	\$0	\$2	\$0	\$2
TOTAL REVENUES	\$209,205	\$208,667	\$0	\$208,667
EXPENDITURES:				
Salary and Wages	\$97,455	\$92,538	\$0	\$92,538
Fringe Benefits	\$38,007	\$46,881	\$0	\$46,881
Supplies	\$12,129	\$7,421	\$0	\$7,421
Travel	\$2,048	\$449	\$0	\$449
Communications	\$1,300	\$851	\$0	\$851
Space Cost	\$13,975	\$13,972	\$0	\$13,972
Other Expense	\$2,420	\$4,729	\$0	\$4,729
Indirect Cost	\$41,871	\$41,826	\$0	\$41,826
TOTAL EXPENDITURES	\$209,205	\$208,667	\$0	\$208,667

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Chippewa County Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$57,594	\$57,594 1	\$0	\$57,594
Local and Other Funds	\$37,925	\$5,085	\$0	\$5,085
Fees and Collections – 1 st and 2 nd Party	\$7,640	\$5,738	\$0	\$5,738
Fees and Collections – 3 rd Party	\$72,360	\$76,835	\$17,571 3	\$94,406
Federal Cost Based Reimbursement	\$10,175	\$18,190	\$0	\$18,190
Local – Non-LPHO	\$37,925	\$7,702	\$0	\$7,702
TOTAL REVENUES	\$199,694	\$171,144	\$17,571	\$188,715 4
EXPENDITURES:				
Salary and Wages	\$81,825	\$61,326	\$0	\$61,326
Fringe Benefits	\$33,898	\$31,583	\$0	\$31,583
Supplies	\$36,000	\$31,434	\$0	\$31,434
Travel	\$300	\$135	\$0	\$135
Communications	\$900	\$451	\$0	\$451
Space Cost	\$8,651	\$8,649	\$0	\$8,649
Other Expense	\$2,350	\$9,691	(\$7,280) 2	\$2,411
Indirect Cost	\$35,770	\$27,873	\$0	\$27,873
TOTAL EXPENDITURES	\$199,694	\$171,144	(\$7,280)	\$163,864

1 Actual MDCH payments provided on a performance reimbursement basis.

2 Unallowable Bad Debt Expense related to uncollectable fees (Finding 2).

3 To increase total fees to \$100,144, which is the estimated amount received on the cash basis (Finding 3).

4 Although total revenues exceed expenditures by \$24,851, it is estimated that at least \$25,000 in adjusted fees (to report fees on the cash basis as required) represent fees that were reported in the prior periods on the accrual basis. Since the fees were previously reported and used to offset prior expenses, no further adjustment will be made.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Understated Indirect Costs

The Health Department understated indirect costs by excluding allowable depreciation from the indirect cost pool, and allocating indirect costs based on budget.

Recommendation: Implement policies and procedures to ensure that all allowable indirect expenses are allocated to programs, and the allocation is based on relative benefits received.

Comments: The Health Department has not included depreciation expense because historically most capitalized items have been purchased with permission using grant dollars, and including depreciation on those items in indirect expense would be double dipping.

Corrective Action: The Health Department will review depreciation expense and identify depreciation on any items that were not originally grant funded at the time of purchase so that the related depreciation can be included in the administrative overhead amount. Additionally, the overhead rate will be calculated with all actual financial information available at the time of the final FSR to assure that all applicable actual overhead is applied to programs via an overhead percentage calculated on actual costs, whether or not grant dollars are available to cover those costs.

**Anticipated
Completion Date:** FYE 2013

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Unallowable Bad Debt Expense

The Health Department reported \$7,280 of bad debt expense for the Family Planning Program, which is unallowable according to OMB Circular A-87.

Recommendation: Implement policies and procedures to ensure that bad debt expense is not reported as an expenditure on the FSR.

Comments: The Health Department agrees with this finding.

Corrective Action: For any program reporting revenue on the FSR based upon the accrual method, the related bad debt expense for that program will be treated as a reduction of accrued revenue on the related FSR. For programs requiring the reporting of fee revenue on a cash basis, the bad debt expense will not be considered as an expense on the FSR nor as a reduction of revenue.

**Anticipated
Completion Date:** Fiscal Year 2013

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Misreported Fees

The Health Department reports fees on an accrual basis in violation of the MDCH Agreement, which requires fees to be reported on a cash basis.

Recommendation: Implement policies and procedures to ensure fees are reported on a cash basis.

Comments: The Health Department does not believe it is appropriate accounting procedure to account for fees on a cash basis while other revenue and expense is reported on an accrual basis and have requested explanation of how the effects of doing so on required grant dollars can be adjusted on the FSR.

Corrective Action: Pending a response to the issues noted under “comments,” the Health Department plans to adjust the reporting of fees on a cash basis on the FSR and will request assistance from the program staff at the State when doing so results in a seeming need for less grant dollars in any one year.

**Anticipated
Completion Date:** Fiscal Year 2013

MDCH Response: The current contract with MDCH requires fees to be reported on a cash basis. Some programs require the Health Department to match a portion of federal funding with local funds. Reporting fees on a cash basis helps ensure that the required match is funded by actual funds collected and not by revenue not yet received.

Comments and Recommendations

1. Pay in Lieu of Insurance Misclassified

The Health Department is required to comply with Generally Accepted Accounting Principles (GAAP). GAAP requires the classification of taxable payments to employees as salary and wages and not fringe benefits, and costs must be properly classified on the FSR. The Health Department gives the employees the opportunity to receive cash payments in lieu of health insurance coverage. These payments are incorrectly classified as fringe benefits on the FSR. We recommend the Health Department implement policies and procedures to ensure payments in lieu of insurance are properly classified as salaries and wages on the FSR.

Management Response: As of fiscal year 2013, payments made in lieu of insurance will be classified under salary expense in the GL and on the FSR.

2. Leave Time Allocations

The Health Department is required to comply with OMB Circular A-87 in reporting their costs. OMB Circular A-87 requires that the cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job be equitably allocated to all related activities. The employees allocate their own leave time to programs based on their own estimations of time worked on each program. The estimations are not based on actual documented activity. We recommend the Health Department centralize the process of allocating leave time, and base it on actual documented activity of the employees to ensure an equitable allocation in accordance with relative benefits received.

Management Response: Finance and IT staff of the Health Department will design an appropriate mechanism for distribution of staffs' paid time off using actual work time distributions from the computer system for the prior 3 to 6 months. The Health Department is in the process of installing a new system. The Health Department will have something in place by fiscal year end for all employees.