

Audit Report

Family Health Center, Inc.
WIC Program

October 1, 2011 – September 30, 2012



Office of Audit
Quality Assurance and Review
June 2013



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

June 13, 2013

Denise Crawford, President and CEO
Family Health Center of Kalamazoo
117 West Paterson Street
Kalamazoo, Michigan 49007

Dear Ms. Crawford:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC Program 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
Pam Myers, Director, Office of Audit
Michael Gribbin, Auditor, Office of Audit

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives	1
Scope and Methodology	2
 <u>Conclusions, Findings, and Recommendations</u>	
Internal Controls	2
Financial Reporting.....	2
1. Expenses Reported on the FSR Do Not Agree With the General Ledger	3
2. Rent for WIC Facility Reported Twice on the FSR.....	3
3. Non-WIC Related Invoice Charged to WIC.....	4
4. Reporting Budgeted Expenses	5
MDCH Share of Costs and Balance Due.....	5
Statement of MDCH Grant Program Revenues and Expenditures	6
Corrective Action Plans	7

DESCRIPTION OF AGENCY

The Family Health Center, Inc. ("Agency") is organized as a non-profit agency under the provisions of Section 501(c)(3) of the Internal Revenue Code. The Agency's administrative office is located in Kalamazoo, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

The Agency provides community health program services to the residents of Kalamazoo County. During the fiscal year, services included the Women, Infant and Children (WIC) Supplemental Food Program, as well as primary health care in family practice medicine, pediatrics, internal medicine, obstetrics, gynecology, behavioral health, physical therapy (started in 2013), occupational therapy, and dental services.

FUNDING METHODOLOGY

The Agency receives funding from various sources including: U.S. Department of Health and Human Services, and from grant programs administered through the Michigan Department of Community Health (MDCH). MDCH grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of the 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.

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 Agency's effectiveness in establishing and implementing internal controls over the WIC Program.
2. To assess the Agency'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.
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 Agency.

SCOPE AND METHODOLOGY

We examined the Agency's records and activities for the fiscal period October 1, 2011 to September 30, 2012. We performed our review procedures in April 2013. Our review procedures included the following:

- Reviewed the most recent Agency Single Audit report for any WIC Program concerns.
- Completed the internal control 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 procedures.
- Reviewed cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.

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 Agency's effectiveness in establishing and implementing internal controls over the WIC Program.

Conclusion: The Agency was effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

FINANCIAL REPORTING

Objective 2: To assess the Agency'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 Agency did not report 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. We found exceptions related to reported expenses not agreeing with the general ledger (Finding 1), double expensing rent (Finding 2), charging non-WIC related invoices to WIC (Finding 3), and expensing budget amounts for administration salaries and fringes, and facilities expense (Finding 4).

Finding

1. Expenses Reported on the FSR Do Not Agree With General Ledger

The Agency reported expenditures on the FSR that do not agree with the general ledger.

The MDCH contract (Part II, Section IV, Part C) requires that FSRs report total actual program expenditures regardless of the source of funds. The MDCH contract (Part II, Section III. A.) also requires compliance with applicable Federal cost principles. OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A.(2.) states that for costs to be allowable under an award, costs must meet the following general criteria:

g. Be adequately documented.

The Agency under-reported their Salaries and Fringes; and over reported their travel, supplies, and other expenses in comparison to the general ledger. The total actual expenditures for WIC per the general ledger is \$602,616. The total expenses reported on the FSR is \$599,869. The Agency only reports total expenditures up to the amount of funding received from MDCH. The net effect of these variances is a \$2,747 understatement. Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The adjustments will not affect funding since the Agency already used all of their MDCH funding.

Recommendation

We recommend that the Agency implement policies and procedures to ensure that all WIC expenditures are reported on the FSR regardless of funding sources, and they agree with supporting documentation in accordance with the Agency's contract with MDCH.

Finding

2. Rent for WIC Facility Reported Twice on the FSR

The Agency directly expensed rent for the Portage Street WIC facility and also included the rent as part of their facility cost allocation.

The Agency's contract with MDCH (Part II, Section III. A.) requires compliance with applicable Federal cost principles. OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A.(2.) states that for costs to be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles...*
- d. Be accorded consistent treatment.*
- e. Be determined in accordance with generally accepted accounting principles.*

The Agency allocates a portion of facility costs from all of their sites to WIC. This allocation includes the yearly budgeted rent of the Portage Street site. Additionally, the Agency reported

total rent expense of \$14,238 for the Portage Street WIC facility. While the methodology was flawed in that the rent costs were not accorded consistent treatment and could potentially result in overcharges, we determined that total facility costs were likely underreported. The facilities allocation was based on budget (See Finding 4) and was less than actual costs. No financial adjustment is being proposed since there would be no impact on MDCH funding with increased costs.

Recommendation

We recommend that the Agency implement policies and procedures to ensure that rent costs are accorded consistent treatment, and costs are not reported twice on the FSR.

Finding

3. Non-WIC Related Invoice Charged to WIC

The Agency reported an expense for WIC for a computer audit for computers in an area that does not do any WIC related activities.

The Agency's contract with MDCH (Part II, Section III. A.) requires compliance with applicable Federal cost principles. OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A.(2.) states that for costs to be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.*

Appendix A, Section A.(4.) states the following with respect to allocable costs:

- a. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.*

The Agency expensed a computer audit to WIC. The computers were for an area that does not do any WIC related activities and therefore should not have been charged to WIC. The invoice was expensed to WIC in error according to the Finance Supervisor. The amount of the invoice is \$4,800. An adjustment is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency implement policies and procedures to ensure that only costs benefiting the WIC program get expensed to WIC.

Finding

4. Reporting Budgeted Expenses

The Agency reported their budgeted administration salaries and fringes, and budgeted facilities costs on the FSR.

The Agency's contract with MDCH (Part II, Section IV. C.) requires that FSRs report total actual program expenditures regardless of the source of funds. Also, the Agency's contract with MDCH (Part II, Section III. A.) requires compliance with applicable Federal cost principles. OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A.(2.) states that for costs to be allowable under an award, costs must meet the following general criteria:

- a. Be reasonable for the performance of the award and be allocable thereto under these principles.*

Appendix A, Section A.(4.) states the following with respect to allocable costs:

- b. A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.*

The Agency does not allocate administration salaries and fringes, and facilities costs based on actual expenditures. Instead, they estimate the allocation to the WIC program and allocate accordingly. Using actual expenditures, the Agency understated their administration salaries and fringes allocation by \$3,612. Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. Further adjustments are not being made for facility costs since there would be no impact on MDCH funding with further increased costs.

Recommendation

We recommend that the Agency implement policies and procedures to ensure that only actual, not budgeted expenditures get allocated to the WIC program.

MDCH SHARE OF COSTS AND BALANCE DUE

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 Agency.

Conclusion: The MDCH obligation under the WIC Program for fiscal year ended September 30, 2012, is \$599,869. The audit adjustments shown on the attached Statement of MDCH Grant Program Revenues and Expenditures had no impact on MDCH funding.

Family Health Center, Inc.
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	\$599,869	\$599,869 1	\$0	\$599,869
Local Funding	\$0	\$0	\$1,560	\$1,560
TOTAL REVENUES	\$599,869	\$599,869	\$1,560	\$601,429
EXPENDITURES:				
Salary and Wages	\$424,953	\$424,953	\$6,719 1, 2	\$431,672
<i>Understated Salaries on the FSR \$2,703</i>			1	
<i>Improper Administration Salaries Allocation \$4,016</i>			2	
Fringe Benefits	\$93,490	\$94,045	\$854 1, 2	\$94,899
<i>Understated Fringes on the FSR \$1,257</i>			1	
<i>Improper Administration Fringes Allocation (\$403)</i>			2	
Travel	\$8,500	\$9,278	(\$422) 1	\$8,856
Supplies	\$7,000	\$13,100	(\$692) 1	\$12,408
Other Expense	\$65,926	\$58,493	(\$4,899) 1, 3	\$53,594
<i>Overstated Expenses on the FSR (\$99)</i>			1	
<i>Invoice Expensed to WIC in Error (\$4,800)</i>			3	
TOTAL EXPENDITURES	\$599,869	\$599,869	\$1,560	\$601,429

- 1** Mis-Reported Expenses on the FSR (Finding 1).
2 Improper Allocation of Administration Salaries and Fringes. (Finding 4).
3 Computer Audit Expense Charged to WIC in Error (Finding 3).

Corrective Action Plan

Finding Number 1

Page Reference 3

Finding: Expenses Reported on the FSR Do Not Agree With the General Ledger

The Agency reported expenditures on the FSR that do not agree with the general ledger.

Recommendation: Implement policies and procedures to ensure that all WIC expenditures are reported on the FSR regardless of funding sources, and they agree with supporting documentation in accordance with the Agency's contract with MDCH.

Agency Comments: Agree with finding

Corrective Action: The Agency will perform a detailed reconciliation of grant expenditures monthly to ensure that actual costs are recorded and that amounts reported on the FSR agree to the general ledger.

Anticipated Completion Date: 06/30/2013

MDCH Response: None

Corrective Action Plan

Finding Number 2

Page Reference 3

Finding: **Rent for WIC Facility Reported Twice on the FSR**

The Agency directly expensed rent for the Portage Street WIC facility and also included the rent as part of their facility cost allocation.

Recommendation: Implement policies and procedures to ensure that rent costs are accorded consistent treatment, and costs are not reported twice on the FSR.

Agency Comments: Agree with finding

Corrective Action: The Agency has revised the cost allocation calculation to exclude the expenses that are directly charged to the program. FHC will review overhead allocations, including rent, monthly to ensure that no direct expenses are included in the allocations.

**Anticipated
Completion Date:** 06/30/2013

MDCH Response: None

Corrective Action Plan

Finding Number 3

Page Reference 4

Finding: Non-WIC Related Invoice Charged to WIC

The Agency reported an expense for WIC for a computer audit for computers in an area that does not do any WIC related activities.

Recommendation: Implement policies and procedures to ensure that only costs benefiting the WIC program get expensed to WIC.

Agency Comments: Agree with finding

Corrective Action: The Agency will perform a review of all expenditures directly charged to the WIC program as part of our normal accounts payable disbursement process. Additionally, general ledger detail of grant expenditures will be reviewed on a monthly basis to ensure that all transactions charged to the grant benefit the WIC program and are allowable per the grant agreement.

**Anticipated
Completion Date:** 06/30/2013

MDCH Response: None

Corrective Action Plan

Finding Number 4

Page Reference 5

Finding: Reporting Budgeted Expenses

The Agency reported their budgeted administration salaries and fringes, and budgeted facilities costs on the FSR.

Recommendation: Implement policies and procedures to ensure that only actual, not budgeted expenditures get allocated to the WIC program.

Agency Comments: Agree with finding

Corrective Action: The Agency will implement a policy to analyze the WIC grant an allocation of salaries and fringes expense based on the actual total expenditures related to employees performing grant activities during the year. The general ledger and FSR will be adjusted to the actual cost on an annual basis based on this analysis.

**Anticipated
Completion Date:** 06/30/2013

MDCH Response: None