

# Audit Report

Health Delivery, Inc.  
WIC and WIC Breastfeeding Programs

October 1, 2012 – September 30, 2013



Office of Audit  
Quality Assurance and Review Section  
June 2014



RICK SNYDER  
GOVERNOR

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

JAMES K. HAVEMAN  
DIRECTOR

June 23, 2014

Dr. Brenda Coughlin, President and CEO  
Health Delivery, Inc.  
501 Lapeer Avenue  
Saginaw, MI 48607

Dear Dr. Coughlin:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC Program for the period October 1, 2012 through September 30, 2013.

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; and Comments and Recommendations. The Comments and Recommendations include the agency's paraphrased response to the Preliminary Analysis.

As noted in the Objective #3 Conclusion, MDCH owes Health Delivery \$8,307. To receive this payment, you must submit a revised FSR. Once that is submitted, MDCH will issue the reimbursement. The contract has been opened in E-Grams to allow this.

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: Pam Myers, Director, Office of Audit  
Stan Bien, Director, WIC Division  
Keith Rubley, Auditor, Office of Audit  
Teresa Schneider, Manager, MDCH Accounting

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## **DESCRIPTION OF AGENCY**

The Health Delivery, Inc. (“Agency”) is organized as a not-for-profit agency, under the provisions of 501(c) (3) of the Internal Revenue Code. The Agency’s Administrative Office is located in Saginaw, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

The Agency currently operates clinics at eight different locations. Program services provided by the Agency include: Dental, Family Practice, OB/GYN, Maternal/Infant Support Services, HIV/AIDS Services, Pharmacy, X-Ray, Mammography, Laboratory Services, Women Infants and Children (WIC) Supplemental Food Program, WIC Peer Counselling, and other Health & Nutrition Programs.

## **FUNDING METHODOLOGY**

The Agency receives funding from various sources including: U.S. Department of Health and Human Services, U.S. Department of Agriculture, Private contributors, 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 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 Agency.

## SCOPE AND METHODOLOGY

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

- Reviewed the most recent Health Delivery, Inc. Single Audit report for any WIC Program concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the Financial Status Reports (FSRs) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- Reviewed applicable 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 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 MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Agency generally reported their WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. The reporting of the amount of space cost as in-kind other revenue resulted in the Agency not receiving the full amount of their MDCH funding; the Agency did not charge the WIC Program for any indirect overhead; and an exception was noted in the allocation of leave time for an employee who was not 100% charged to WIC. Comments and Recommendation are included in the audit report.

## **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 Agency.

**Conclusion:** The MDCH obligation under the WIC and WIC Breastfeeding Programs for fiscal year ended September 30, 2013, is \$425,783 and \$8,425, respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. MDCH owes the Agency a balance of \$8,307 after considering revenues and allowable expenditures as shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

**Health Delivery, Inc.**  
**WIC Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/12 - 9/30/13**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$425,783	\$417,476 <b>1</b>	\$8,307	\$425,783
Other Revenue	\$0	\$25,321	(\$25,321) <b>2</b>	\$0
Local Funds Other	\$19,800	\$0	\$16,350	\$16,350
<b>TOTAL REVENUES</b>	<b>\$445,583</b>	<b>\$442,797</b>	<b>(\$664)</b>	<b>\$442,133</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$330,661	\$318,529	(\$664) <b>3</b>	\$317,865
Fringe Benefits	\$76,052	\$78,908	\$0	\$78,908
Supplies	\$9,070	\$11,734	\$0	\$11,734
Travel	\$4,000	\$5,614	\$0	\$5,614
Other Costs	\$25,800	\$28,012	\$0	\$28,012
<b>TOTAL EXPENDITURES</b>	<b>\$445,583</b>	<b>\$442,797</b>	<b>(\$664)</b>	<b>\$442,133</b>

**1** Actual MDCH payments provided on a performance reimbursement basis.

**2** Amount of facility cost reported as In Kind-Other Revenue. However, cost is eligible for MDCH reimbursement. Adjustments made to recover full MDCH grant amount.

**3** Overstated annual leave. (Comment and Recommendation)

**Health Delivery Inc.**  
**WIC Breastfeeding Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/12 - 9/30/13**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$13,048	\$8,425 <sup>1</sup>	\$0	\$8,425
Fees 1st & 2nd Party	\$0	\$0	\$0	\$0
Other Revenue	\$0	\$0	\$0	\$0
Local Funds Other	\$0	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	\$13,048	\$8,425	\$0	\$8,425
<b>EXPENDITURES:</b>				
Salary and Wages	\$9,564	\$6,094	\$0	\$6,094
Fringe Benefits	\$2,284	\$1,569	\$0	\$1,569
Supplies	\$300	\$182	\$0	\$182
Travel	\$300	\$54	\$0	\$54
Other Expense	\$600	\$526	\$0	\$526
<b>TOTAL EXPENDITURES</b>	\$13,048	\$8,425	\$0	\$8,425

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.



## **Comments and Recommendations**

### **1. Administrative and Facility Expenses Not Allocated to WIC (Repeat)**

The Agency did not allocate administrative expenses or the full amount of facility expenses to the WIC Program. The Agency expenses costs in their Administration cost center on the general ledger, but does not allocate the expenses to the WIC Program or any other programs. Also, although the Agency allocated facility costs for the Janes Street location to the WIC Program, the space costs related to the other locations were not allocated to the WIC Program. The MDCH contract (Part II, Section IV, Part C) requires that FSRs report total actual program expenditures regardless of the source of funds.

#### **Recommendation**

We recommend that the Agency equitably allocate administrative costs to the WIC Program and report these costs on the FSR regardless of the funding source, and allocate facility costs from the other locations to the WIC Program.

#### **Agency Response**

The Agency will report in-kind facility and overhead costs on the FSR annually.

### **2. Allocation of Leave Time**

The Agency allocated the leave time cost for one employee totally to the WIC Program when this employee only worked a portion of their time in the WIC Program. The MDCH contract (Part II, Section III, Part A) requires that the Agency comply with Office of Management and Budget (OMB) Circular A-122. OMB Circular A-122 (located at 2 CFR Part 230), Appendix B, Section 8.g.(1) states, “*Fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job...are allowable, provided such costs are absorbed by all organization activities in proportion to the relative amount of time or effort actually devoted to each.*” Our testing was limited to one month of payroll and an overstatement of \$664 was identified. An adjustment is shown on the Statement of MDCH Grant Program Revenues and Expenditures.

**Recommendation**

We recommend that the Agency implement policies and procedures to ensure leave time cost is allocated to all programs in proportion to the relative amount of time or effort actually devoted to each.

**Agency Response**

The Agency will charge vacation payouts to the WIC program at the same percentage as the employee's salary is charged to the WIC program.