

Audit Report

InterCare Community Health Network WIC Program

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review Section
April 2014



RICK SNYDER
GOVERNOR

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

JAMES K. HAVEMAN
DIRECTOR

April 15, 2014

Velma Hendershott, President & CEO
InterCare Community Health Network
50 Industrial Park Drive
Bangor, MI 49013

Dear Ms. Hendershott:

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; Corrective Action Plan; and Comments and Recommendations. The Agency's paraphrased response to the Preliminary Analysis is also included.

Please note MDCH's response to Comment and Recommendation #1 related to the E-Grants reporting system. The E-Grants reporting system was only temporarily modified to allow the Agency to submit a revised FSR for FYE 2013. The budget restrictions remain in place for the fiscal year beginning October 1, 2013. If costs are anticipated to go over budget, the Agency must initiate a budget revision according to the contractual terms.

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

InterCare Community Health Network (“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 Bangor, Michigan. The Agency operates under the legal supervision and control of its Board of Directors.

The Agency operates community health centers located in Allegan, Berrien, Ottawa, Kent and Van Buren counties. Program services include: Medical, Dental, Prenatal & Obstetrical Services, Maternal and Infant Support Services, Breast and Cervical Cancer Control Program, Women Infants and Children (WIC) Supplemental Food Program, and WIC Breastfeeding.

FUNDING METHODOLOGY

The Agency receives funding 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 and WIC Breastfeeding Programs.
2. To assess the Agency’s effectiveness in reporting their WIC and WIC Breastfeeding Programs 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 and WIC Breastfeeding Programs 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 InterCare Community Health Network Single Audit report for any WIC or WIC Breastfeeding Programs concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the WIC and WIC Breastfeeding Programs Financial Status Reports (FSR) to the accounting records.
- Reviewed a sample of payroll expenditures.
- Tested a sample of expenditures for program compliance, and policy and approval procedures.
- 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 Programs.

Conclusion: The Agency was effective in establishing and implementing internal controls over the WIC Programs. No findings 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. One exception was noted regarding the space cost charged to the WIC Program for Agency owned buildings (Finding 1).

Finding

1. Overstated Space Cost for Bangor and Pullman Locations

The Agency charged the WIC Program space cost based on the average monthly cost of the leased locations for their Agency-owned buildings rather than the amount allowed according to Federal cost principles.

OMB Circular A-122 (located at 2 CFR Part 230), Appendix B, Section 11. Depreciation and use allowances, states:

- a. Compensation for the use of buildings, other capital improvements, and equipment on hand may be made through use allowances or depreciation...*
- b. The computation of use allowances or depreciation shall be based on the acquisition cost of the assets involved...*

The Agency charged the WIC Program \$21,600 annually for both the Bangor and Pullman buildings (Agency owned), and this was based on the average monthly cost of other leased locations. However, the only allowable cost for these building, including capital improvements, is depreciation. If borrowing was involved in the purchase, construction or improvements of these properties, interest, under certain conditions would also be permissible. However, the interest information provided by the Agency related to the purchase of another building. Considering allowable depreciation for the Bangor and Pullman buildings based on a depreciation schedule provided by the Agency, we determined space costs to be overstated by \$32,250.

An adjustment to remove unallowable space cost is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend the Agency implement policies and procedures to ensure that the Agency properly reports space cost for Agency-owned buildings in accordance with Federal cost principles.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine the MDCH share of costs for the WIC and WIC Breastfeeding Programs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Agency.

Conclusion: The MDCH obligations under the WIC Program for fiscal year ended September 30, 2013 for WIC and WIC Breastfeeding are \$2,383,375 and \$65,832, respectively. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The Agency owes MDCH \$3,396 as a result of the Finding 1 adjustment related to space cost, and other offsetting adjustments.

InterCare Community Health Network
WIC Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$2,386,771	\$2,386,771 1	(\$3,396)	\$2,383,375
Local Funds Other	\$0	\$0	\$0	\$0
TOTAL REVENUES	\$2,386,771	\$2,386,771	(\$3,396)	\$2,383,375
EXPENDITURES:				
Salary & Wages	\$1,512,545	\$1,577,102	\$0	\$1,577,102
Fringe Benefits	\$396,287	\$385,674	\$2,756 5	\$388,430
Supplies	\$60,000	\$29,901	\$472 2	\$30,373
Travel	\$26,230	\$29,706	\$0	\$29,706
Other Costs	\$391,709	\$364,388	\$20,330 2	\$357,764
			(\$32,250) 3	
			\$5,296 4	
TOTAL EXPENDITURES	\$2,386,771	\$2,386,771	(\$3,396)	\$2,383,375

- 1** Actual MDCH payments provided on a performance reimbursement basis.
- 2** Adjustments due to E-Grants limitations and costs not recorded (Comment and Recommendation #1).
- 3** Space cost adjustment due to unsupported costs (Finding #1).
- 4** Accounting error – item not included on FSR (Dowagiac common area).
- 5** Transfer of expenses from WIC Breastfeeding that was over budget to maximize funding.
(Done with approval of MDCH WIC Program Director)

InterCare Community Health Network
WIC Breastfeeding Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$65,832	\$65,832 ¹	\$0	\$65,832
Fees 1 st & 2 nd Party	\$0	\$0	\$0	\$0
Other Revenue	\$0	\$0	\$0	\$0
Local Funds Other	\$0	\$0	\$0	\$
TOTAL REVENUES	\$65,832	\$65,832	\$0	\$65,832
EXPENDITURES:				
Salary & Wages	\$57,582	\$57,582	\$0	\$57,582
Fringe Benefits	\$8,250	\$8,250	\$2,756 ²	\$8,250
			(\$2,756) ³	
TOTAL EXPENDITURES	\$65,832	\$65,832	\$0	\$65,832

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
² Adjustment due to E-Grants limitations (Comment and Recommendation #1).
³ Transfer amount over budget to WIC Program that has additional funding available after other audit adjustments per approval received from MDCH WIC Program Director.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Overstated Space Cost for Bangor and Pullman Locations**

The Agency charged the WIC Program space cost based on the average monthly cost of the leased locations for their Agency-owned buildings rather than the amount allowed according to Federal cost principles.

Recommendation: Implement policies and procedures to ensure that the Agency properly reports space cost for Agency-owned buildings in accordance with Federal cost principles.

Comments: The Agency agrees with the recommendation.

Corrective Action: The Agency will implement policies and procedures that require a standard allocation of actual expenses of agency owned buildings.

**Anticipated
Completion Date:** October 1, 2013.

MDCH Response: None

Comments and Recommendations

1. Unreported Expenses and All Allocable Expenses Not Included in the General Ledger

The Agency did not report all of their WIC Program expenses recorded in their general ledger on their FSR in the MI E-Grants reporting system. Additionally, the Agency did not record all expenses that were allocable to the WIC Program in the general ledger for the WIC Program. The reason for the misreporting was due to system restrictions within the MI E-Grants reporting system that did not allow reporting above budgeted amounts. Accordingly, not all WIC Program expenses could be reported, and the Agency chose to discontinue allocating certain costs to the WIC Program once the budgeted amount was reached.

The MDCH agreement requires reporting of total actual program expenditures, regardless of the source of funds (Part II, Section IV. Financial Requirements, C. Financial Status Report Submission). Total program expenditures consist of direct costs and all allocable indirect costs, and all must be reported.

Subsequent to the on-site portion of the audit, the MI E-Grants reporting system was modified to permit full expenditure reporting, and a revised FSR was submitted by the Agency.

Adjustments to add expenditures from the general ledger that were not previously reported, and to add other expenditures not previously included in the general ledger for the WIC Program are included on the Statements of MDCH Grant Program Revenues and Expenditures included in this report.

Recommendation

We recommend that the Agency adopt procedures to ensure costs are allocated to applicable programs and fully reported on future FSRs.

Management's Response

The Agency could not report expenses over the budgeted amount in the MDCH on-line reporting system. With this, the Agency did not allocate all expenses from the Agency to the WIC Programs within the general ledger system. The Agency understands that this has been fixed and will report all expenses for the programs going forward.

MDCH Response

The E-Grants reporting system was only temporarily modified to allow the Agency to submit a revised FSR for FYE 2013. The budget restrictions remain in place for the fiscal year beginning October 1, 2013. If costs are anticipated to go over budget, the Agency must initiate a budget revision according to the contractual terms.

Comments and Recommendations

2. Travel Policy and Travel Vouchers

The Agency's Travel Reimbursement Policy allows for reimbursements of travel, per diem and other approved costs at current Board-approved rates upon submission of "proper approved documents." The policy, however, does not specify what constitutes "proper approved documents" such as a travel voucher with sufficient detail regarding the purpose and detail regarding the costs, and any receipt requirements. We were told that the Board-approved rates were \$.51 per mile and \$35 per diem per day. There is no stated limit per meal nor time frames for full or partial day reimbursement nor mention of what happens when meals are already provided at a conference.

We generally found in our travel expense testing that the total meal expense for a day for each employee complied with the daily policy limit of \$35. However, we noted the following:

- a. Since there is no limit per meal nor time frames for full or partial day reimbursement nor mention of conference provided meals in the Travel Reimbursement Policy, it appears employees may obtain a \$35 reimbursement for one meal regardless of their travel time or provision of part of the meals at a conference, which is excessive.
- b. Receipts showed more than one individual dining, including non-employees. For example, one receipt showed 2 pizzas for one individual, one receipt showed breakfast for a family of four, and one receipt showed a dinner for a family of four. The Travel Reimbursement Policy should limit allowable travel costs to costs incurred by employees only.
- c. One travel voucher showed "meals-supper" for \$25 with an attached receipt for a family of four for breakfast for \$34.82. On this same day, the individual had a \$30.75 room service charge. Lunch was provided at the conference.
- d. One travel voucher showed "meals – supper and lunch" for \$34.16 on the departure date from the Traverse City conference. However, lunch was provided at the conference, and the meal receipt showed a meal for a family of four in Grandville on the return evening.
- e. On the arrival date for the WIC Conference (partial day), an employee's room expense detail showed a \$42.75 sports bar charge that was paid by the Agency. This exceeds the daily per diem rate, and appears excessive for one meal. Additionally, no detail was provided to show how many meals were purchased and if alcohol was purchased.

Recommendation

We recommend that the Agency amend the Travel Reimbursement Policy to include the mileage rate, limits per meal, timeframes for meal reimbursement, receipt requirements, whether reimbursement is a flat per diem per meal or based on actual costs incurred, a limitation of allowable costs to those incurred by employees, and the prohibition of charging meals when provided at a conference. We also recommend that the Agency amend the Travel Expense Vouchers to include times of travel (departure, arrival and return) so it can be determined if itemized charges agree with the Travel Reimbursement Policy. Finally, we recommend that the Agency adopt controls (review and approval procedures) to ensure payments of travel expense costs comply with the Travel Reimbursement Policy.

Management's Response

The Agency is currently in the process of reviewing the Travel Policy based on the recommendations proposed during the review of the WIC Program. Changes to the Travel Policy are subject to the Agency's Board of Director approval and it is expected that implementation of changes will occur at a later date during the current fiscal year.