



RICK SNYDER
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
BUREAU OF AUDIT
P.O. Box 30815; LANSING, MICHIGAN 48909

NICK LYON
DIRECTOR

August 27, 2018

Leslie Griffith, Director of Finance
InterCare Community Health Network
50 Industrial Park Drive
Bangor, Michigan 49013

Dear Ms. Griffith:

Attached is our final report from the Michigan Department of Health and Human Services audit of the InterCare Community Health Network WIC Program for the period October 1, 2015 through September 30, 2016.

The final report contains the following: Description of Agency; Funding Methodology; Purpose and Objectives; Scope and Methodology; Conclusions, Findings, and Recommendations; Statements of Grant Program Revenues and Expenditures; Corrective Action Plans; and Comments and Recommendations. The Corrective Action Plans and Comments and Recommendations include the agency's response to the Preliminary Analysis.

Final reports are posted for public viewing on the MDHHS website at:
http://www.michigan.gov/mdhhs/0,5885,7-339-73970_43164-151236--,00.html.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Shannah M. Havens, CPA, CISA
Audit Section Manager
Population Health and Community Services Section
Audit Division

cc: Debra Hallenbeck, Director, Audit Division
Christina Herring, Director, WIC Division
Brittany LaRue, Manager, Financial Management and FMNP Unit
Bryce Wooton, Auditor, Population Health and Community Services Program
Matthew Tompkins, Auditor, Population Health and Community Services Program
Rob Smith, Senior Accountant, InterCare Community Health Network

Audit Report

InterCare Community Health Network
WIC Program

October 1, 2015 – September 30, 2016



Bureau of Audit
Audit Division
August 2018

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives	1
Scope and Methodology.....	1
<u>Conclusions, Findings, and Recommendations</u>	
<u>Financial Reporting</u>	2
1. FSRs Not Supported by Accounting Records.....	3
2. Unallowable Expenses Recorded to the WIC Program	4
3. Insufficient Support for Indirect Costs.....	4
4. Insufficient Documentation for One Location's Space Costs	5
<u>MDHHS Share of Costs and Balance Due</u>	6
Statement of Grant Program Revenues and Expenditures-WIC Special Supplemental..	7
Statement of Grant Program Revenues and Expenditures-WIC Breastfeeding Peer Counselor	8
Statement of Grant Program Revenues and Expenditures-WIC Migrant	9
Corrective Action Plans	10
Comments and Recommendations	14

DESCRIPTION OF AGENCY

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

The Agency serves the residents of Allegan, Berrien, Cass, Ottawa, Kent, and Van Buren counties. In addition to medical and dental care, the Agency offers a full range of comprehensive support, education, nutrition, case management, transportation services, Women Infants and Children (WIC) Supplemental Food Program, WIC Breastfeeding, and WIC Migrant.

FUNDING METHODOLOGY

The Agency receives funding from grant programs administered through the Michigan Department of Health and Human Services (MDHHS) and other local funds. MDHHS grant funding is reimbursed monthly, based on Financial Status Reports, in accordance with the terms and conditions of the grant agreement and budget.

The WIC Program was funded by MDHHS grant funds. Grant funding from MDHHS for the WIC Program is federal funding under federal catalog number 10.557.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program financial reporting and to determine the MDHHS share of WIC Program costs. Following are the specific objectives of the audit:

1. To assess the Agency's effectiveness in reporting its WIC Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable Federal standards, and generally accepted accounting principles.
2. To determine the MDHHS share of costs for the WIC Program in accordance with applicable MDHHS 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, 2015 to September 30, 2016. Our review procedures included the following:

- Reviewed the most recent Agency Single Audit report for any WIC Program concerns.
- Reviewed the completed Subrecipient Questionnaire.
- Reconciled the 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 equipment purchases over \$2,500 for the WIC Program.
- Reviewed building space/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed indirect cost and other cost allocations for reasonableness and an equitable methodology.

Our audit did not include a review of program content or quality of services provided.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

FINANCIAL REPORTING

Objective 1: To assess the Agency's effectiveness in reporting its WIC Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable Federal standards, and generally accepted accounting principles.

Conclusion: The Agency was not effective in reporting its WIC Program financial activity to MDHHS in accordance with applicable MDHHS requirements and agreements, applicable federal standards, and generally accepted accounting principles. We identified the following exceptions: FSRs not supported by accounting records (Finding 1), unallowable expenses recorded to the WIC Program (Finding 2), inconsistent allocation and insufficient support for indirect costs (Finding 3), and insufficient documentation for one location's space costs (Finding 4).

Finding

1. FSRs Not Supported by Accounting Records

The Agency's FSRs did not reconcile with its accounting records. Also, the Agency did not report all WIC Program expenditures and source of funds on its FSRs.

Title 2 CFR 200.302 (a) states, "...non-Federal entity's financial management systems...must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to Federal statutes, regulations, and the terms and conditions of the Federal award." Also, the MDHHS Grant Agreement, Part I, Section IV. C. states, "The monthly FSRs must reflect total actual program expenditures, regardless of the source of funds."

During our review, we noted the following discrepancies when we reconciled the final FSR expenditure line items to the related WIC Program general ledger accounts:

- Salaries and wages is higher on the general ledger by \$5,849.
- Travel is higher on the general ledger by \$7,917.
- Supplies and materials is higher on the general ledger by \$20,592.
- Other expenses is higher on the FSR by \$25,054.

The Agency did not have sufficient controls in place to ensure that its FSRs reconciled to the WIC Program's accounting records. Also, the Agency did not design an accounting system to sufficiently track which expenditures were recorded to the WIC Supplemental, WIC Breastfeeding Peer Counselor, and WIC Migrant Programs. In addition, the Agency only reported expenditures funded by the State's grant agreement and excluded non-federally funded Program expenditures and source of funds. As a result, we cannot sufficiently determine the actual expenditures and funding sources for the Agency's WIC Supplemental, WIC Breastfeeding Peer Counselor, and WIC Migrant Programs.

While the line items on the FSRs did not agree with the WIC general ledger, total expenditures for the Programs exceeded the total FSRs. Due to the inability to recalculate the adjusting amounts per Program, adjustments were made only to the attached WIC Supplemental Statement of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency implement sufficient controls and procedures to ensure that the FSRs reconcile with its accounting records. We also recommend that the Agency report all WIC Program expenditures and source of funds on its FSRs to ensure compliance with Federal regulations and the MDHHS grant agreement.

Finding

2. Unallowable Expenses Recorded to the WIC Program

The Agency recorded unallowable expenditures to the WIC Program.

Title 2 CFR 200.437 Employee health and welfare costs states, “Costs incurred in accordance with the non-Federal entity’s documented policies for the improvement of working conditions, employer-employee relations, employee health, and employee performance are allowable.” Also, Title 2 CFR 200.438 Entertainment Costs states, “Costs of entertainment including amusement, diversion, and social activities and associated costs are unallowable, except where specific costs that might otherwise be considered entertainment have a programmatic purpose and are authorized either in the approved budget for the Federal Award or with prior written approval of the Awarding Agency.” In addition, Title 2 CFR 200.421(e) states, “Unallowable advertising and public relation costs include the following... (3) Costs of promotional items and memorabilia, including models, gifts and souvenirs.”

During our review, we noted that the Agency did not design any employee health and welfare policy to support allocating approximately 10% of the costs for \$5,759 American Express gift cards and \$4,520 employee service awards to the WIC Program. We also noted that the Agency did not receive prior approval to allocate approximately 10% of the costs for a staff dinner and overnight lodging at a local inn for \$4,336. In addition, we noted \$1,793 of additional unallowable entertainment expenditures charged to the WIC Program. We further noted a \$1,533 unallowable souvenir expense for inflatable beach balls that was charged to the WIC Program. Adjustments were made to the attached WIC Special Supplemental Statement of Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Agency implement policies and procedures to ensure that only allowable expenditures are recorded to the WIC Program to ensure compliance with Federal regulations.

Finding

3. Insufficient Support for Indirect Costs

The Agency did not maintain sufficient source documentation to support its indirect cost allocation rates.

Title 2 CFR 200, Appendix IV, Section B.4.b. regarding the Direct Allocation Method states, “This method is acceptable, provided each joint cost is prorated using a base which accurately measures the benefits provided to each Federal award or other activity. The bases must be established in accordance with reasonable criteria and be supported by current data.”

The Agency elected to use the direct allocation method and treated all costs as direct costs and distributed joint costs to various activities using distribution bases that they believed accurately measured the benefits provided by each activity. During our review, we noted that the Agency's indirect cost allocation rate ranged from 2.5% to 10%. We also noted that the Agency provided documentation to support the calculation of the 10% but did not maintain supporting documentation for any percentage less than 10%.

Recommendation

We recommend that the Agency maintain sufficient documentation to support the indirect cost allocation rate calculation to ensure compliance with Federal regulation.

Finding

4. Insufficient Documentation for One Location's Space Costs

The Agency did not provide sufficient documentation to support the lease costs for one of its locations.

Title 2 CFR 200.318 General procurement standards states, "The Non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations." The Agency's procurement policy Part VII. Procurement Records states, "With respect to purchases with federal funds, the responsible Agency employees will maintain procurement records and files that include... (1) copy of signed contract; (2) solicitation, amendments to the solicitation, and responses; (3) invoices; (4) correspondence..." In addition, Title 2 CFR 200.403(g) Factors affecting allowability of costs requires that costs, "Be adequately documented to be allowable under Federal Awards."

During our review, we noted that the Agency could not provide the lease agreement to support \$37,272 in annual space costs expensed to the WIC Program. As a result, we could not determine if the space costs were reasonable and if the amount expensed reconciles to the lease agreement.

Recommendation

We recommend that the Agency implement proper controls to ensure sufficient documentation is maintained to support all of its space costs to ensure compliance with the Agency's procurement policy and Federal regulations.

MDHHS SHARE OF COSTS AND BALANCE DUE

Objective 2: To determine the MDHHS share of costs for the WIC Program in accordance with applicable MDHHS requirements and agreements, and any balance due to or due from the Agency.

Conclusion: The MDHHS obligations under the WIC Program for fiscal year ended September 30, 2016 for WIC, WIC Breastfeeding, and WIC Migrant are \$2,156,121, \$67,807, and \$211,253, respectively. The attached Statements of MDHHS Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments, but none affected WIC Program grant funding.

**InterCare Community Health Network
WIC Special Supplemental
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$2,156,121	\$2,156,121 1		\$2,156,121
Local Funds - Other	\$0	\$0	\$4,489 2, 3	\$4,489
TOTAL REVENUES	\$2,156,121	\$2,156,121	\$4,489	\$2,160,610
EXPENDITURES:				
Salary & Wages	\$1,316,925	\$1,338,414	\$5,849 2	\$1,344,263
Fringe Benefits	\$403,236	\$348,279		\$348,279
Supplies & Materials	\$28,140	\$26,939	\$20,592 2	\$47,531
Travel	\$21,995	\$25,294	\$4,635 2, 3	\$29,929
Other	\$385,825	\$417,195	(\$26,587) 2, 3	\$390,608
TOTAL EXPENDITURES	\$2,156,121	\$2,156,121	\$4,489	\$2,160,610

1 Actual MDHHS payments.

2 FSRs Not Supported by Accounting Records (Finding 1)

3 Unallowable Expenses Recorded to the WIC Program (Finding 2)

**InterCare Community Health Network
 WIC Breastfeeding Peer Counselor
 Statement of Grant Program Revenues and Expenditures
 10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$67,807	\$67,807 ¹		\$67,807
TOTAL REVENUES	\$67,807	\$67,807	\$0	\$67,807
EXPENDITURES:				
Salary & Wages	\$54,684	\$55,363		\$55,363
Fringe Benefits	\$13,123	\$12,444		\$12,444
TOTAL EXPENDITURES	\$67,807	\$67,807	\$0	\$67,807

¹ Actual MDHHS payments.

**InterCare Community Health Network
WIC Migrant
Statement of Grant Program Revenues and Expenditures
10/1/15 - 9/30/16**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDHHS Grant	\$211,253	\$211,253 ¹		\$211,253
TOTAL REVENUES	\$211,253	\$211,253	\$0	\$211,253
EXPENDITURES:				
Salary & Wages	\$137,255	\$134,434		\$134,434
Fringe Benefits	\$37,589	\$34,340		\$34,340
Supplies & Materials	\$2,564	\$2,657		\$2,657
Travel	\$1,916	\$3,157		\$3,157
Other	\$31,929	\$36,664		\$36,664
TOTAL EXPENDITURES	\$211,253	\$211,253	\$0	\$211,253
¹ Actual MDHHS payments.				

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **FSRs Not Supported by Accounting Records**

The Agency's FSRs did not reconcile with its accounting records. Also, the Agency did not report all WIC Program expenditures and source of funds on its FSRs.

Recommendation: Implement sufficient controls and procedures to ensure that the FSRs reconcile with accounting records. Also, report all WIC Program expenditures and source of funds on FSRs to ensure compliance with Federal regulations and the MDHHS grant agreement.

Comments: None

Corrective Action: InterCare Community Health Network will reconcile the FSRs to the General Ledger system on a quarterly basis.

Person Responsible for Implementation: Senior Accountant

Anticipated Completion Date: August 20, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: **Unallowable Expenses Recorded to the WIC Program**

The Agency recorded unallowable expenditures to the WIC Program.

Recommendation: Implement policies and procedures to ensure that only allowable expenditures are recorded to the WIC Program to ensure compliance with Federal regulations.

Comments: None

Corrective Action: InterCare Community Health Network will follow the guidelines recommended by the State WIC Program, that all expenses must either “benefit” or “educate” the patient. If the InterCare WIC Program has any questions regarding a purchase, they will contact the State WIC Program for further clarification.

Person Responsible for Implementation: WIC Manager

Anticipated Completion Date: August 20, 2018

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: **Insufficient Support for Indirect Costs**

The Agency did not use a consistent methodology to calculate its indirect cost allocation rate. Also, the Agency did not maintain sufficient source documentation to support its indirect cost allocation rate.

Recommendation: Maintain sufficient documentation to support the indirect cost allocation rate calculation to ensure compliance with Federal regulation.

Comments: None

Corrective Action: InterCare Community Health Network has implemented the 10% De Minimis Rate for reporting indirect costs.

**Person Responsible
for Implementation:** Senior Accountant

**Anticipated
Completion Date:** October 1, 2017

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: **Insufficient Documentation for One Location's Space Costs**

The Agency did not provide sufficient documentation to support the lease costs for one of its locations.

Recommendation: Implement proper controls to ensure sufficient documentation is maintained to support all of its space costs to ensure compliance with the Agency's procurement policy and Federal regulations.

Comments: None

Corrective Action: InterCare Community Health Network has centralized its corporate leases into a master file to ensure all leases have the necessary support.

Person Responsible for Implementation: Administrative Assistant

Anticipated Completion Date: August 20, 2018

MDHHS Response: None

Comments and Recommendations

1. Insufficient Supporting Documentation for Expenditures

The Agency did not provide sufficient supporting documentation for some WIC expenditures reported on its FSRs. Also, the Agency did not consistently follow its purchasing policy. Title 2 CFR 200.302(b) states, “The financial management system of each non-Federal entity must provide for the following... (3) Records that identify adequately the source and application of funds for federally funded activities. These records must...be supported by source documentation.” Also, Title 2 CFR 200.403 states, “...costs must meet the following general criteria in order to be allowable under Federal awards...(g) Be adequately documented.” In addition, the Agency’s Purchasing Procedures state, “A purchase order will be used at each site for each vendor and/or every order for purchase of services, supplies and equipment.” During our review, we noted nine (21.43%) of 42 expenditure transactions did not have sufficient source documentation to support the amount reported. For example, the expense log and travel expense sheets lacked itemized receipts to support the costs and copied receipts were incomplete and unreadable. We also noted that the Agency did not use purchase orders for 21 (60%) of 35 purchases of services and supplies. We recommend that the Agency provide sufficient source documentation to support all expenditures reported on the FSRs, to ensure compliance with Federal regulations. We also recommend that the Agency consistently follow its purchasing policy for all requisitions and purchases of services and supplies.

Management’s Response:

InterCare Community Health Network’s Finance Department will ensure that all purchases have a Purchase Order number assigned to them before any funds are distributed for payment. We will also make sure that all travel expense tracking sheets have legible receipts before any funds are approved. InterCare will also ensure that all purchases or travel expense reimbursements be signed off by the appropriate supervisor and reviewed by the WIC Manager quarterly.

2. Lack of Written Procedures for Determining Cost Allowability

The Agency did not document procedures for determining allowability of costs. Title 2 CFR 200.302 (b)(7) requires, “Written procedures for determining the allowability of costs in accordance with Subpart E – Cost Principles of this Part and the terms and conditions of the Federal award.” We recommend that the Agency document procedures to ensure the allowability of costs is properly determined to ensure compliance with Federal regulation.

Management’s Response:

InterCare Community Health Network will adhere to the State WIC programs allowable cost test of making sure purchases either “benefit” or “educate” the patient before a

purchase is made. InterCare will contact the State WIC program for any clarification regarding allowable cost.

3. Insufficient Controls Over its Financial Management Systems

The Agency did not have sufficient controls over its financial management systems in place to ensure all WIC Special Supplemental, WIC Breastfeeding Peer Counselor, and WIC Migrant expenditures were accurately recorded and reported on its FSRs.

Title 2 CFR 200.303 (a) states, “Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and the conditions of the Federal award...”

Also, Title 2 CFR 200.62 states, “Internal control over compliance requirements for Federal awards means a process implemented by a non-Federal entity designed to provide reasonable assurance regarding the achievement of the following objectives for Federal Awards:

(a) Transactions are properly recorded and accounted for, in order to:

- (1) Permit the preparation of reliable financial statements and Federal reports;
- (2) Maintain accountability over assets; and
- (3) Demonstrate compliance with Federal statutes, regulations and terms and conditions of the Federal award.”

The Agency’s insufficient controls over its financial management systems could have contributed to the exceptions noted in Findings 1, 2, 3, 4; and Comment 1. We recommend that the Agency implement sufficient controls over its financial management systems to ensure compliance with Federal regulations.

Management Response:

InterCare Community Health Network’s Finance Department will reconcile the FSRs to our General Ledger system on a quarterly basis to ensure that all expenses for the WIC program are being accurately reported on the FSRs. These quarterly reconciliations will be done in collaboration by the Senior Accountant and Director of Finance.

4. Purchase Orders Did Not Have Proper Authorization Prior to Payment

The Agency did not obtain management authorization on all its purchase orders prior to payment. Title 2 CFR 200.302(b) states, “The financial management system of each non-Federal entity must provide for the following... (3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source

documentation.” During our review, we noted that six (66.7%) of the nine purchase orders provided did not have management approval prior to payment. We recommend that the Agency implement controls to ensure proper management approval on all purchase orders prior to payment to ensure compliance with Federal regulation.

Management Response:

InterCare Community Health Network’s Finance Department will ensure that all purchases have a signed Purchase Order number assigned to them before the purchase is approved for payment and the expense is allocated to the WIC Program. InterCare’s Senior Accountant, the Accounts Payable Specialist and the WIC manager will review these distributions monthly to ensure all items are being assigned correctly.

5. Improper Recording and Reporting of Other Expenses as Travel Expenditures

The Agency improperly recorded and reported non-travel related costs as travel expenditures. Title 2 CFR 200.474 states, “(a) Travel costs are the expenses for transportation, lodging, subsistence, and related items incurred by employees who are in travel status on official business of the non-Federal entity...and in accordance with the non-Federal entity’s written travel reimbursement policies. (b) Costs incurred by employees and officers for travel, including costs of lodging, other subsistence, and incidental expenses, must be considered reasonable and otherwise allowable to the extent such costs do not exceed charges normally allowed by the non-Federal entity in its regular operations as the result of the non-Federal entity’s written travel policy.” Also, the Agency’s Travel Reimbursement policy states, “Travel expenses are reimbursed upon submission of proper approved documents for reasonable in town or out-of-town business expenses... (6) Travel between sites and travel for meetings should be recorded on the travel expense form... (9) All food, parking and incidental expenses will be paid based on actual receipts if per diem is not used for reimbursement.” During our review, we noted that 17 (74%) of 23 tested travel expenditures reported on the Agency’s FSR were recorded in the general ledger as employee relations. These expenditures consisted of catering and food expenses for staff meetings, picnics, Christmas and retirement parties, etc. We also noted that some of the reported Travel expenses consisted of a microwave, gift certificates, and gift basket expenditures. In addition, we noted that the Agency used travel reimbursement forms for non-travel related expenditures. We recommend that the Agency implement appropriate controls and procedures to ensure that expenditures are properly recorded in the general ledger and accurately reported to ensure compliance with Federal regulations and the Agency’s travel reimbursement policy.

Management Response:

InterCare Community Health Network’s Finance Department has created new sub accounts that address this issue. Our General Ledger now encompasses sub accounts for “refreshments”, “Group or Site Meeting and “Outside Conference Travel”. InterCare’s Senior Accountant, the Accounts Payable Specialist and the WIC manager will review these General Ledger subaccounts monthly to ensure all items are being assigned correctly.