

# Audit Report

## **Jackson County Health Department WIC Program**

October 1, 2011 – September 30, 2012



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 21, 2013

Ted Westmeier, RS, MPH, Director/Health Officer  
Jackson County Health Department  
1715 Lansing Avenue, Suite 221  
Jackson, Michigan 49202

Dear Mr. Westmeier:

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

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## **DESCRIPTION OF AGENCY**

The Jackson 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 Jackson County, and the administrative office is located in Jackson, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Jackson County. The Health Department provides community health program services to the residents of Jackson 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, AIDS/HIV Prevention, Children's Special Health Care Services, Maternal and Child Health, Medicaid Outreach, Bioterrorism/Emergency Preparedness/Pandemic Flu, 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. The Michigan Department of Community Health (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.

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

## SCOPE AND METHODOLOGY

We examined the Health Department's records and activities for the fiscal period October 1, 2011 to September 30, 2012. Our review procedures included the following:

- Reviewed the most recent Jackson County Single Audit report for any WIC Program concerns.
- Completed an 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 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

### INTERNAL CONTROLS

**Objective 1:** To assess the Health Department's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Health Department was generally effective in establishing and implementing internal controls over the WIC Program. However, there were internal control exceptions related to financial reporting that are addressed in the financial reporting section of this report.

### FINANCIAL REPORTING

**Objective 2:** To assess the Health Department'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 Health Department was not effective in reporting its WIC Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. We identified two financial reporting exceptions: reporting expenses on the FSR that do not agree with underlying accounting records (Finding 1) and the lack of support for the indirect expense reporting (Finding 2).

## **Finding**

### **1. Financial Status Report and General Ledger Do Not Reconcile**

The Health Department understated their direct expenses on the FSR by \$43,583.

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

We noted multiple variances when reconciling the expenses on the General Ledger to the FSR. The Health Department misreported all of their direct expenses except salaries.

Adjustments to report expenses at the General Ledger amounts are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The adjustments, however, do not affect MDCH funding since the Health Department had fully used the grant funds prior to the adjustments.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that expenses reported on the General Ledger reconcile to the expenses reported on the FSR.

## **Finding**

### **2. Misreported Indirect Expenses**

The Health Department could not support their indirect rate calculation and applied it to an incorrect salary and fringe amount resulting in an understated indirect cost amount for the WIC Program.

The Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). For costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225. According to Appendix A, Section C. 3. a.:

*A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.*

OMB Circular A-87, Appendix A, Section C. 1. (j) requires that all costs "be adequately documented" to be allowable.

The Health Department used 45.56% as the percentage to apply to salaries and fringes to determine the indirect expense amount. This percentage was calculated by the Finance Supervisor's predecessor. The current Finance Supervisor does not possess the workpapers used to calculate that percentage and could not tell us how it was determined.

Additionally, the Health Department had applied their indirect percentage to the total salaries and fringes on the FSR, which is not correct (see Finding 1). We calculated that the indirect rate should have been 45.97%. When applying this to the actual salaries and fringes on the general ledger, the indirect expense should have been \$298,387 rather than the reported amount of \$283,801.

An adjustment for \$14,586 is shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The adjustment, however, does not affect MDCH funding since the Health Department had fully used the grant funds prior to the adjustment.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that all indirect expenses are allocated according to the relative benefits received as required by OMB Circular A-87.

## **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 Health Department.

**Conclusion:** The MDCH obligation under the WIC Program for fiscal year ended September 30, 2012 is \$857,468. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments that affect the MDCH share of WIC Program funding.

**Jackson County Health Department**  
**WIC Supplemental Food Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/11 - 9/30/12**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
WIC	\$857,468	\$857,468 <sup>1</sup>	\$0	\$857,468
Local Funds - Other	\$70,289	\$70,289	\$58,169	\$128,458
<b>TOTAL REVENUES</b>	<b>\$927,757</b>	<b>\$927,757</b>	<b>\$58,169</b>	<b>\$985,926</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$440,188	\$476,960	\$0	\$476,960
Fringe Benefits	\$126,101	\$145,016	\$27,184 <sup>2</sup>	\$172,200
Equipment	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$16,859	\$9,172	\$15,628 <sup>2</sup>	\$24,800
Travel	\$700	\$1,492	\$64 <sup>2</sup>	\$1,556
Communications	\$1,300	\$625	\$881 <sup>2</sup>	\$1,506
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$68,808	\$10,691	(\$174) <sup>2</sup>	\$10,517
Indirect Cost	\$273,801	\$283,801	\$14,586 <sup>3</sup>	\$298,387
<b>TOTAL EXPENDITURES</b>	<b>\$927,757</b>	<b>\$927,757</b>	<b>\$58,169</b>	<b>\$985,926</b>

<sup>1</sup> Actual MDCH payments.

<sup>2</sup> Variance between the amounts reported in the GL and the FSR (Finding 1).

<sup>3</sup> Misreported indirect expenses (Finding 2).



## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** **Financial Status Report and General Ledger Do Not Reconcile**

The Health Department understated their direct expenses on the FSR by \$43,583.

**Recommendation:** Implement policies and procedures to ensure that expenses reported on the General Ledger reconcile to the expenses reported on the FSR.

**Comments:** The Health Department agrees with this finding. There was a change in personnel as the prior financial service manager departed in 2011 and an outside consultant performed the preparation of the FSR based on the totals provided by the departing financial service manager.

**Corrective Action:** The Health Department reconciles the general ledger to the FSR. An outside consultant reviews the FSRs before they are submitted in E-Grams. The County Finance Director reviews the FSR to ensure they agree with the general ledger.

**Anticipated  
Completion Date:** January 2013

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Misreported Indirect Expenses

The Health Department could not support their indirect rate calculation and applied it to an incorrect salary and fringe amount resulting in an understated indirect cost amount for the WIC Program.

**Recommendation:** Implement policies and procedures to ensure that all indirect expenses are allocated according to the relative benefits received as required by OMB Circular A-87.

**Comments:** The Health Department agrees with this finding. There was no documentation to support the indirect rate used.

**Corrective Action:** The Health Department has documented the indirect cost rate for the current fiscal year ending September 30, 2013.

**Anticipated  
Completion Date:** April 2013

**MDCH Response:** None