

Audit Report

Kent County Health Department WIC Program

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review Section
February 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 1, 2013

Adam London, Interim Health Officer
Kent County Health Department
700 Fuller Ave., NE
Grand Rapids, MI 49503

Dear Mr. London:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the WIC Program for the period October 1, 2010 through September 30, 2011.

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 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, reading "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. Lack of Approval for Substitute Timekeeping System.....	3
2. Misstated Indirect Costs.....	3
MDCH Share of Costs	4
Statement of MDCH Grant Program Revenues and Expenditures – WIC	5
Statement of MDCH Grant Program Revenues and Expenditures – WIC Breastfeeding	6
Corrective Action Plans	7

DESCRIPTION OF AGENCY

The Kent 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 Kent County, and the administrative office is located in Grand Rapids, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Kent County. The Health Department provides community health program services to the residents of Kent County. These services 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, Breast and Cervical Cancer Control, Maternal and Child Health, Childhood Lead, 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, 2010 to September 30, 2011. Our review procedures included the following:

- Reviewed the most recent Kent County 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 payroll expenditures.
- Tested a sample of expenditures for program compliance, and 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 effective in establishing and implementing internal controls over the WIC Program. No internal control exceptions were noted.

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 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. We noted exceptions related to personnel cost allocations (Finding 1), and indirect cost allocations (Finding 2).

Finding

1. Lack of Approval for Substitute Timekeeping System

The Health Department does not use personnel activity reports when allocating personnel costs to the Medicaid Outreach Program, and the substitute system approval had not been documented.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix B, Section 8.h.(4) states,

Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation...unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency.

A number of WIC Program employees spend significant time on activities relating to the Medicaid Outreach Program. The Health Department does not require their employees to complete personnel activity reports when allocating time to the Medicaid Outreach Program. Alternatively, the Health Department conducts a time study periodically to determine how much salaries and fringes to allocate to the Medicaid Outreach Program. Approval for the substitute system had not been documented.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that distributions of salaries or wages are supported by personnel activity reports, or any substitute timekeeping system is properly approved in accordance with OMB Circular A-87.

Finding

2. Misstated Indirect Costs

The Health Department misstated indirect costs by using budgeted numbers for the distribution base, and by including capital outlay expenses in the cost pool.

Per OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section C. 3. Allocable Costs, “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.”

Per OMB Circular A-87, Appendix A, Section F. 1., “Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.”

Per OMB Circular A-87, Appendix B, Section 15. b. (5), “Equipment and other capital expenditures are unallowable as indirect costs.”

Per OMB Circular A-87, Appendix B, Section 11. a. “Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use.”

The Health Department allocated administration and clinic expenses by a percentage of *budgeted* direct expenses to total *budgeted* expenses. This method should only be used on an interim basis. The use of the budget as the distribution base will not necessarily result in an equitable distribution in accordance with *actual* benefits derived. For example, the administration indirect rate for the WIC Program was 20.14 percent based on budget, but was 20.51 percent based on actual. Differences could potentially be more significant, and could go either way. To ensure an equitable distribution in accordance with actual benefits derived, indirect costs should be distributed based on actual results rather than budget.

Also, the Health Department improperly included numerous capital expenditures in the administration cost pool. Capital expenditures of \$35,502 were included in the cost pool, but only \$9,143 in depreciation should have been included. This resulted in a \$26,359 overstatement in the administration cost pool.

We recalculated the administration and clinic overhead expenses by removing capital expenditures and adding allowable depreciation, and by using actual direct expenditures as the distribution base. The differences are shown as adjustments on the attached Statements of MDCH Grant Program Revenues and Expenditures. The net increase in allowable expenditures for the WIC Supplemental Food Program had no impact on MDCH funds as the full grant amount had already been spent. The net decrease in allowable expenditures for the WIC Breastfeeding/Peer Counseling Program had no impact on MDCH funds due to the level of local funds.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that indirect costs are distributed based on actual results rather than budget, and capital outlay expenditures are properly excluded from the indirect cost pools.

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 Health Department.

Conclusion: The MDCH obligation under the WIC Supplemental Food Program is \$3,423,994 and under the WIC Breastfeeding/Peer Counseling Program is \$260,000 for fiscal year ended September 30, 2011. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting the WIC Supplemental Food Program or the WIC Breastfeeding/Peer Counseling Program funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$3,423,994	\$3,423,994 ¹	\$0	\$3,423,994
Fees and Collections – 3 rd Party	\$20,398	\$69,537	\$0	\$69,537
Federal or State (Non MDCH)	\$24,639	\$30,372	\$0	\$30,372
Local Funds	\$838,157	\$522,292	\$27,646	\$549,938
Local Non-LPHO	\$5,974	\$5,661	\$0	\$5,661
TOTAL REVENUES	\$4,307,188	\$4,051,856	\$27,646	\$4,079,502
EXPENDITURES:				
Salary and Wages	\$1,884,235	\$1,839,249	\$0	\$1,839,249
Fringe Benefits	\$728,765	\$690,689	\$0	\$690,689
Contractual	\$300,515	\$317,175	\$0	\$317,175
Supplies	\$117,257	\$79,272	\$0	\$79,272
Travel	\$18,075	\$9,362	\$0	\$9,362
Communications	\$37,603	\$34,159	\$0	\$34,159
Space Cost	\$171,154	\$182,858	\$0	\$182,858
Other Expense	\$136,205	\$94,078	\$0	\$94,078
Admin. - Indirect Cost	\$803,699	\$696,610	\$35,240 ²	\$731,850
Clinic Services Ovhd.	\$109,680	\$108,404	(\$7,594) ³	\$100,810
TOTAL EXPENDITURES	\$4,307,188	\$4,051,856	\$27,646	\$4,079,502

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Misstated Administration Indirect Cost (Finding 2).

³ Misstated Clinic Overhead Cost (Finding 2).

**Kent County Health Department
WIC Breastfeeding/Peer Counseling Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$260,000	\$260,000 ¹	\$0	\$260,000
Local and Other Funds	\$78,950	\$23,043	(\$10,722)	\$12,321
TOTAL REVENUES	\$338,950	\$283,043	(\$10,722)	\$272,321
EXPENDITURES:				
Salary and Wages	\$162,252	\$157,006	\$0	\$157,006
Fringe Benefits	\$87,739	\$61,115	\$0	\$61,115
Contractual	\$0	\$0	\$0	\$0
Supplies	\$11,825	\$698	\$0	\$698
Travel	\$4,000	\$1,048	\$0	\$1,048
Communications	\$3,396	\$0	\$0	\$0
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$0	\$0	\$0	\$0
Admin. - Indirect Cost	\$61,130	\$54,669	(\$8,782) ²	\$45,887
Clinic Services Ovhd.	\$8,608	\$8,507	(\$1,940) ³	\$6,567
TOTAL EXPENDITURES	\$338,950	\$283,043	(\$10,722)	\$272,321

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Misstated Administration Overhead Cost (Finding 2).

³ Misstated Clinic Overhead Cost (Finding 2).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Lack of Approval for Substitute Timekeeping System**

The Health Department does not use personnel activity reports when allocating personnel costs to the Medicaid Outreach Program, and the substitute system approval had not been documented.

Recommendation: Implement policies and procedures to ensure that distributions of salaries or wages are supported by personnel activity reports, or any substitute timekeeping system is properly approved in accordance with OMB Circular A-87.

**Health Department
Comments:**

The Medicaid Outreach staff has encouraged the Health Departments to take advantage of Medicaid Outreach funding in the past. The County of Kent has attempted to obtain approval from its Federal Cognizant Agency, Department of Health and Human Services, to use random moment time studies as a substitute timekeeping system. HHS has indicated that they do not approve such requests. The Kent County Health Department is in the process of obtaining approval from the State Medicaid Outreach staff, as instructed by the WIC auditor.

Corrective Action: The Health Department is drafting a request to the State Medicaid Outreach staff to request approval to use time studies as a substitute timekeeping system, as instructed by the WIC auditing staff.

**Anticipated
Completion Date:** March 2013

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Misstated Indirect Costs

The Health Department misstated indirect costs by using budgeted numbers for the distribution base, and by including capital outlay expenses in the cost pool.

Recommendation: Implement policies and procedures to ensure that indirect costs are distributed based on actual results rather than budget, and capital outlay expenditures are properly excluded from the indirect cost pools.

**Health Department
Comments:**

The Health Department did not adjust the indirect cost allocation based on actual expenditures at the end of fiscal year 2011 because the adjustment was immaterial. However, the Health Department will make sure that the indirect costs are always adjusted to actual from now on, no matter the materiality.

Corrective Action: Ensure that the final indirect cost allocation is based on actual final expenditures. In addition, all capital outlay expensed in the cost pool will be removed before the final cost allocation is completed.

**Anticipated
Completion Date:** Immediately

MDCH Response: None