

**Audit Report**  
**Livingston County Health Department**  
**WIC Program**

October 1, 2011 – September 30, 2012



**Office of Audit**  
Quality Assurance and Review Section  
November 2013



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
OFFICE OF AUDIT  
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November 20, 2013

Ted Westmeier, R.S., M.P.H, Health Officer  
Livingston County Health Department  
2300 East Grand River, Suite 102  
Howell, Michigan 48843

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; Statements of MDCH Grant Program Revenues and Expenditures; and Corrective Action Plans. The conclusions and findings 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  
Mike Gribbin, Senior Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Livingston 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 Livingston County, and the administrative office is located in Howell, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Livingston County. The Health Department provides community health program services to the residents of Livingston 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, Childhood Lead Prevention, Children's Special Health Care Services, Maternal and Child Health, Public Health 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 Livingston 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 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.
- Reviewed WIC equipment inventory.

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 not completely effective in establishing and implementing internal controls over the financial reporting component of the WIC Program. While we noted improvements since the last audit, we noted several financial reporting exceptions as shown 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 did not report 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 the following exceptions: the financial status report (FSR) did not agree with the general ledger (Finding 1), the wage allocation methodology did not comply with Federal requirements (Finding 2), agency support costs were allocated using a predetermined budgeted rate (Finding 3), county central service costs were not allocated correctly (Finding 4), and nursing administration costs were misallocated (Finding 5).

## **Finding**

### **1. Expenditures Reported on FSRs Not in Agreement with Final General Ledger (Repeat)**

The Health Department did not report accurate expenditures on the final FSRs for FYE 2012 for the WIC and WIC Breastfeeding Programs.

The Health Department's contract with MDCH (Part II, Section IV., Part D.) requires that the: *"FSR's must report total actual expenditures regardless of the source of funds."*

Reported FSR amounts did not agree with final General Ledger amounts. The Health Department incorrectly reported line items on the WIC Program FSR resulting in an understatement of total expenditures of \$37,037. For the WIC Breastfeeding Program, the Health Department overstated expenditures by \$868. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that all expenditures are accurately reported on the FSR.

## **Finding**

### **2. Non-Compliant Wage Allocation Methodology (Repeat)**

The Health Department did not properly allocate wages for the first three quarters of FYE 2012 resulting in a misstatement of wages for FYE 2012.

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). According to OMB Circular A-87, Appendix B, Section 8.:

- a. *Compensation for personnel services...are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR 225, and that the total compensation for individual employees...(3) Is determined and supported as provided in subsection h...*
- h. *Support of Salaries and wages...*
  - (4) *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 which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:*
    - (a) *More than one Federal award...*
  - (5) *Personnel activity reports or equivalent documentation must meet the following standards:*
    - (a) *They must reflect an after the fact distribution of the actual activity of each employee,*

- (b) *They must account for the total activity for which each employee is compensated,*
- (c) *They must be prepared at least monthly and must coincide with one or more pay periods, and*
- (d) *They must be signed by the employee.*
- (e) *Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:*
  - (i) *The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;*
  - (ii) *At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent.*

According to the Finance Supervisor, the Health Department used the same incorrect wage allocation methodology for October 2011 through June 2012 that was cited in MDCH's FYE 2010 WIC Program Audit Report. Basically, percentages of personnel time by program in relation to total Health Department time were applied to agency-wide wage costs to determine program costs, rather than using actual costs of individual employees that were supported by personnel activity reports. Since the Audit Report was not issued until April 2012, the incorrect methodology continued into FYE 2012. The methodology used in the final quarter of FYE 2012 appeared to be in compliance with OMB Circular A-87.

We recalculated the YTD salaries expense using the actual hours worked by individuals on the WIC and WIC Breastfeeding Programs and their hourly rates, and compared the recalculated amounts to the amounts in the general ledger. We noted that the WIC Program Salaries and Wages were overstated by \$8,088, and the WIC Breastfeeding Program Salaries and Wages were understated by \$33. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Health Department take action to ensure that wage allocations continue to be made in accordance with OMB Circular A-87.

### **Finding**

#### **3. Overstated Indirect Costs**

The Health Department overstated indirect costs on the final FSR for FYE 2012 by using an arbitrary rate of 18% throughout the year instead of calculating a rate based on actual expenditures.

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). According to OMB Circular A-87, Appendix E, Section B. 5.:

*"Predetermined rate" means an indirect cost rate, applicable to a specified current or future period, usually the governmental unit's fiscal year. This rate is based on an estimate of the costs to be incurred during the period...Predetermined rates may not be used by governmental units that have not submitted and negotiated the rate with the cognizant agency.*

The Health Department had no approval for the use of the 18% predetermined rate. In the absence of such approval, the rate must be based on actual expenditures. We recalculated the indirect rate considering such items as total actual salaries and fringes, total actual administrative expenses, and required exclusions; and determined a rate of 17.11%. When applying the correct rate, we found that Indirect Costs were overstated \$3,672 for the WIC Program and \$213 for the WIC Breastfeeding Program. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that all indirect costs are allocated based on actual expenditures and in accordance with relative benefits received.

### **Finding**

#### **4. Misreported County Central Service Costs**

The Health Department could not support the amount of County Central Service Costs allocated to programs, and allocated the costs based on budgeted full time equivalent (FTE) counts of each 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 adequately documented and allocable to Federal awards under the provisions of 2 CFR Part 225. According to Appendix A of 2 CFR Part 225:

- C.1.j. To be allowable under Federal awards, costs must meet the following general criteria:...Be adequately documented.*
- 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.*
- 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.*

The amount of County Central Service Costs distributed to the Health Department's programs by the Health Department could not be traced and agreed to any source documentation. Additionally, the County Central Service Costs were allocated to the Health



Department's programs based on budgeted full time equivalent (FTE) counts of each benefitting program. However, using a budgeted distribution base does not ensure costs are allocated according to actual benefits received. Actual rather than budget should be used as the distribution base.

We recalculated the County Central Service Cost allocation using amounts supported by the Maximus reports from the applicable time periods, and using actual salaries and fringes as the distribution base. We determined that County Central Service Costs were understated \$1,840 for the WIC Program and \$546 for the WIC Breastfeeding Program. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that the amount of County Central Service Costs allocated to programs is supported, and the distribution base is based on actual costs rather than budget to ensure costs are equitably distributed to cost objectives in accordance with relative benefits received.

## **Finding**

### **5. Nursing Administration Allocation Error**

The Health Department incorrectly allocated Nursing Administration Expenses on the FYE 2012 FSRs based exclusively on 4<sup>th</sup> quarter information.

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 of 2 CFR Part 225:

*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.*

*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.*

The Health Department allocated nursing administration costs based on programs' 4<sup>th</sup> quarter salaries and fringes only rather than the total year. The Health Department should have used the salaries and fringes from the entire fiscal year to accurately allocate nursing administration expenses based on relative benefits received. We recalculated the nursing administration allocation, and determined that there was an overstatement of \$12,299 for the WIC Program and an understatement of \$6,985 for the WIC Breastfeeding Program. Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures.

### **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that the Nursing Administration costs are equitably distributed to cost objectives in accordance with relative benefits received.

### **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 \$331,930. The MDCH obligation under the WIC Breastfeeding Program for fiscal year ended September 30, 2012 is \$32,500. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC or WIC Breastfeeding grant program funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH - CPBC	\$331,930	\$331,930 <sup>1</sup>	\$0	\$331,930
Local Funds - Other	\$55,372	\$54,799	\$14,818	\$69,617
<b>TOTAL REVENUES</b>	<b>\$387,302</b>	<b>\$386,729</b>	<b>\$14,818</b>	<b>\$401,547</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$162,578	\$163,585	\$9,000 <sup>2</sup> (\$8,088) <sup>3</sup>	\$164,497
Fringe Benefits	\$64,415	\$66,467	\$18,000 <sup>2</sup>	\$84,467
Supplies	\$5,350	\$5,350	\$1,037 <sup>2</sup>	\$6,387
Travel	\$1,056	\$1,544	\$0	\$1,544
Communications	\$1,000	\$3,453	\$0	\$3,453
County Central Services	\$23,985	\$23,985	\$1,840 <sup>5</sup>	\$25,825
Space Costs	\$14,654	\$11,719	\$0	\$11,719
Other Expense	\$28,041	\$20,175	\$0	\$20,175
Indirect Costs	\$49,938	\$46,269	(\$3,672) <sup>4</sup>	\$42,597
Other Cost Distributions	\$36,285	\$44,182	\$9,000 <sup>2</sup> (\$12,299) <sup>6</sup>	\$40,883
<b>TOTAL EXPENDITURES</b>	<b>\$387,302</b>	<b>\$386,729</b>	<b>\$14,818</b>	<b>\$401,547</b>

- <sup>1</sup> Actual MDCH payments.  
<sup>2</sup> FSR and GL do not reconcile (Finding 1).  
<sup>3</sup> Incorrect Salaries and Wages Allocation (Finding 2).  
<sup>4</sup> Incorrect Administration Overhead Allocation (Finding 3).  
<sup>5</sup> Incorrect CSCAP Allocation Methodology (Finding 4).  
<sup>6</sup> Incorrect Nursing Administration Allocation (Finding 5).

**Livingston County Health Department**  
**WIC Breastfeeding/Peer Counselor Program**  
**Statement of MDCH Grant Program Revenues and Expenditures**  
**10/1/11 - 9/30/12**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH - CPBC	\$32,500	\$32,500 <b>1</b>	\$0	\$32,500
Local Funds - Other	\$5,439	\$10	\$6,483	\$6,493
<b>TOTAL REVENUES</b>	<b>\$37,939</b>	<b>\$32,510</b>	<b>\$6,483</b>	<b>\$38,993</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$21,411	\$13,704	\$33 <b>3</b>	\$13,737
Fringe Benefits	\$6,423	\$10,175	\$632 <b>2</b>	\$10,807
Supplies	\$0	\$0	\$0	\$0
Travel	\$1,000	\$0	\$0	\$0
Communications	\$1,000	\$0	\$0	\$0
County Central Services	\$2,000	\$2,000	\$546 <b>5</b>	\$2,546
Space Costs	\$2,000	\$1,500	(\$1,500) <b>2</b>	\$0
Other Expense	\$600	\$0	\$0	\$0
Indirect Costs	\$2,505	\$4,412	(\$213) <b>4</b>	\$4,199
Other Cost Distributions	\$500	\$719	\$6,985 <b>6</b>	\$7,704
<b>TOTAL EXPENDITURES</b>	<b>\$37,939</b>	<b>\$32,510</b>	<b>\$6,483</b>	<b>\$38,993</b>

- 1** Actual MDCH payments.  
**2** FSR and GL do not reconcile (Finding 1).  
**3** Incorrect Salaries and Wages Allocation (Finding 2).  
**4** Incorrect Administration Overhead Allocation (Finding 3).  
**5** Incorrect CSCAP Allocation Methodology (Finding 4).  
**6** Incorrect Nursing Administration Allocation (Finding 5).

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** **Expenditures Reported on FSRs Not in Agreement with Final General Ledger (Repeat)**

The Health Department did not report accurate expenditures on the final FSRs for FYE 2012 for the WIC and WIC Breastfeeding Programs.

**Recommendation:** Implement policies and procedures to ensure that all expenditures are accurately reported on the FSR.

**Health Department  
Comments:**

The Health Department hired a full-time accountant in July 2012. The majority of the findings have been remedied with the 4<sup>th</sup> quarter FSR.

**Corrective Action:** The Health Department will implement policies and procedures to ensure that all expenditures are accurately reported on the FSR. The Health Department will continue to review procedures to ensure compliance with all MDCH contract guidelines and OMB Circular A-87.

**Anticipated  
Completion Date:** Completed

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Non-Compliant Wage Allocation Methodology (Repeat)

The Health Department did not properly allocate wages for the first three quarters of FYE 2012 resulting in a misstatement of wages for FYE 2012.

**Recommendation:** Take action to ensure that wage allocations continue to be made in accordance with OMB Circular A-87.

**Health Department  
Comments:**

The Health Department hired a full-time accountant in July 2012. The majority of the findings have been remedied with the 4<sup>th</sup> quarter FSR.

**Corrective Action:** The Health Department will implement policies and procedures to ensure that all expenditures are accurately reported on the FSR. Wages and benefits are currently based on actuals, not a budgeted or pooled rate. The Health Department will continue to review procedures to ensure compliance with all MDCH contract guidelines and OMB Circular A-87.

**Anticipated  
Completion Date:** Completed

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 3

**Page Reference:** 4

**Finding:** Overstated Indirect Costs

The Health Department overstated indirect costs on the final FSR for FYE 2012 by using an arbitrary rate of 18% throughout the year instead of calculating a rate based on actual expenditures.

**Recommendation:** Implement policies and procedures to ensure that all indirect costs are allocated based on actual expenditures and in accordance with relative benefits received.

**Health Department  
Comments:**

The Health Department hired a full-time accountant in July 2012. The majority of the findings have been remedied with the 4<sup>th</sup> quarter FSR.

**Corrective Action:** The Health Department will implement policies and procedures to ensure that all expenditures are accurately reported on the FSR. The indirect cost will be based on actual expenditures rather than a budgeted rate. The Health Department will continue to review procedures to ensure compliance with all MDCH contract guidelines and OMB Circular A-87.

**Anticipated  
Completion Date:** Completed

**MDCH Response:** None

## Corrective Action Plan

**Finding Number:** 4

**Page Reference:** 5

**Finding:** Misreported County Central Service Costs

The Health Department could not support the amount of County Central Service Costs allocated to programs, and allocated the costs based on budgeted full time equivalent (FTE) counts of each program.

**Recommendation:** Implement policies and procedures to ensure that the amount of County Central Service Costs allocated to programs is supported, and the distribution base is based on actual costs rather than budget to ensure costs are equitably distributed to cost objectives in accordance with relative benefits received.

**Health Department  
Comments:**

The Health Department hired a full-time accountant in July 2012. The majority of the findings have been remedied with the 4<sup>th</sup> quarter FSR.

**Corrective Action:** The Health Department will implement policies and procedures to ensure that all expenditures are accurately reported on the FSR. The distribution base will be based on actual costs rather than budgeted FTEs. The Health Department will continue to review procedures to ensure compliance with all MDCH contract guidelines and OMB Circular A-87.

**Anticipated  
Completion Date:** 10/1/2013

**MDCH Response:** None



## Corrective Action Plan

**Finding Number:** 5

**Page Reference:** 6

**Finding:** **Nursing Administration Allocation Error**

The Health Department incorrectly allocated Nursing Administration Expenses on the FYE 2012 FSRs based exclusively on 4<sup>th</sup> quarter information.

**Recommendation:** Implement policies and procedures to ensure that the Nursing Administration costs are equitably distributed to cost objectives in accordance with relative benefits received.

**Health Department**

**Comments:** The Health Department hired a full-time accountant in July 2012. The majority of the findings have been remedied with the 4<sup>th</sup> quarter FSR.

**Corrective Action:** The Health Department will implement policies and procedures to ensure that all expenditures are accurately reported on the FSR. The allocation of Nursing Administration will be calculated quarterly based on actual wage rate. The Health Department will continue to review procedures to ensure compliance with all MDCH contract guidelines and OMB Circular A-87.

**Anticipated**

**Completion Date:** Completed

**MDCH Response:** None