

# Audit Report

Mid-Michigan Community Action Agency, Inc.  
WIC Program

October 1, 2010 – September 30, 2011



Office of Audit  
Quality Assurance and Review Section  
November 2012



RICK SNYDER  
GOVERNOR

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

JAMES K. HAVEMAN  
DIRECTOR

November 2, 2012

Jill Sutton, Executive Director  
Mid-Michigan Community Action Agency  
1574 E. Washington Road  
P.O. Box 768  
Farwell, Michigan 48622

Dear Ms. Sutton:

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; Statement of MDCH Grant Program Revenues and Expenditures; and the Corrective Action Plan. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plan includes the agency's paraphrased response to the Preliminary Analysis.

A total of \$5,981 in reported costs that were previously paid to Mid-Michigan Community Action Agency were determined unallowable (Finding 1) and must be repaid to MDCH. Please send a check payable to the State of Michigan for \$5,981 to the following address by **December 3, 2012**:

Lisa Halverson, Manager  
Revenue Operations Section, Accounting Division  
Michigan Department of Community Health  
P.O. Box 30437  
Lansing, Michigan 48909

Jill Sutton, Executive Director  
Mid-Michigan Community Action Agency  
November 2, 2012  
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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  
Lisa Halverson, Manager, Accounting Division  
Michael Gribbin, Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

Mid-Michigan Community Action Agency, 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 Clare, Michigan. The Agency operates under the legal supervision and control of its Board of Directors. The Agency provides program services in the counties of Bay, Clare, Gladwin, Mecosta, Midland, and Osceola. These services include weatherization; emergency shelter; food and utility assistance; Head Start; the Women, Infants, and Children (WIC) Supplemental Food Program; and other programs for the purpose of assisting low income individuals.

## **FUNDING METHODOLOGY**

The Agency receives funding primarily from federal and state government grants including the WIC Program grant 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 Program.
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.
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 Agency.

## SCOPE AND METHODOLOGY

We examined the Agency'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 Mid-Michigan Community Action Agency, Inc. 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 policy and approval procedures.
- Reviewed space/lease cost and other expense 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 Agency's effectiveness in establishing and implementing internal controls over the WIC Program.

**Conclusion:** The Agency 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 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 was generally effective 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. We noted one exception regarding employee health insurance cost reporting (Finding 1).

## **Finding**

### **1. Health Insurance for Non-WIC Employee Expensed on the FSR**

The Agency reported \$5,981 in health insurance expenses for an employee who no longer worked in the WIC Program.

Per OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Section C. 1.b., costs must “be allocable to Federal awards under the provisions of 2 CFR Part 225” to be allowable. Per OMB Circular A-87, 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.”

In October 2010, the Agency transferred an employee to the Early Head Start Program, but continued to charge that employee’s health insurance expenses to the WIC Program. These costs are not allocable to the WIC Program. The Agency had used MDCH WIC Program funds to pay for these expenses. Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. The total amount to be paid back to MDCH for these charges is \$5,981.

## **Recommendation**

We recommend the Agency implement policies and procedures to ensure that only the health insurance costs for employees that benefit the WIC Program are reported as an expense on the FSR.

## **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 Agency.

**Conclusion:** The MDCH obligation for fiscal year ended September 30, 2011 under the WIC Program is \$315,734, and under the WIC Breastfeeding/Peer Counseling Program is \$47,388. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs for each program. The audit made one adjustment that affected WIC funding by \$5,981, as noted in Finding 1 above.

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

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$328,633	\$321,715 <b>1</b>	(\$5,981)	\$315,734
Local and Other Funds	\$0	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	\$328,633	\$321,715	(\$5,981)	\$315,734
<b>EXPENDITURES:</b>				
Salary and Wages	\$156,597	\$150,661	\$0	\$150,661
Fringe Benefits	\$64,205	\$48,341	(\$5,981) <b>2</b>	\$42,360
Supplies	\$12,094	\$12,138	\$0	\$12,138
Travel	\$7,250	\$3,485	\$0	\$3,485
Other Expense	\$88,487	\$107,090 <b>3</b>	\$0	\$107,090
<b>TOTAL EXPENDITURES</b>	\$328,633	\$321,715	(\$5,981)	\$315,734

**1** Actual MDCH payments provided on a performance reimbursement basis.

**2** Non-WIC Related Health Insurance Expense (Finding 1).

**3** Budget deviation was approved by MDCH WIC Director.



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

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$58,543	\$47,388 <sup>1</sup>	\$0	\$47,388
Local and Other Funds	\$0	\$0	\$0	\$0
<b>TOTAL REVENUES</b>	\$58,543	\$47,388	\$0	\$47,388
<b>EXPENDITURES:</b>				
Salary and Wages	\$30,740	\$26,792	\$0	\$26,792
Fringe Benefits	\$12,603	\$9,563	\$0	\$9,563
Supplies	\$5,200	\$1,299	\$0	\$1,299
Travel	\$4,500	\$2,725	\$0	\$2,725
Other Expense	\$5,500	\$7,008	\$0	\$7,008
<b>TOTAL EXPENDITURES</b>	\$58,543	\$47,387	\$0	\$47,388

<sup>1</sup> Actual MDCH payments provided on a performance reimbursement basis.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** **Health Insurance for Non-WIC Employee Expensed on the FSR**

The Agency reported \$5,981 in health insurance expenses for an employee who no longer worked in the WIC Program.

**Recommendation:** Implement policies and procedures to ensure that only the health insurance costs for employees that benefit the WIC Program are reported as an expense on the FSR.

**Agency Comments:** The Agency agrees with the finding and recommendation.

**Corrective Action:** The Human Resources Director will review and verify changes on the health insurance spreadsheet against the monthly billing statement. Two employees will verify changes before expenses are posted to the funding source. The Agency is working with SAGE software to update the payroll module to automatically expense health benefits based on each employee funding source code.

**Anticipated  
Completion Date:** Completed

**MDCH Response:** None