

Audit Report

Muskegon County Health Department WIC Program

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review Section
November 2014



RICK SNYDER
GOVERNOR

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

NICK LYON
DIRECTOR

November 13, 2014

Kenneth Kraus, MPA, Director/Health Officer
Muskegon County Health Department
209 E. Apple Avenue
Muskegon, Michigan 49442

Dear Mr. Kraus:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Muskegon County Health Department WIC Program for the period October 1, 2012 through September 30, 2013.

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.

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

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DESCRIPTION OF AGENCY

The Muskegon 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 Muskegon County, and the administrative office is located in Muskegon, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of Muskegon County. The Health Department provides community health program services to the residents of Muskegon 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, Tobacco Reduction, 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.

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, 2012 to September 30, 2013. Our review procedures included the following:

- Reviewed the most recent Muskegon County Single Audit report for any WIC Program concerns.
- Reviewed the completed 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.
- Reviewed WIC equipment inventory records.

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 regarding the Health Department directly expensing a capital improvement project (Finding #1) and misreported indirect costs (Finding #2).

Finding

1. Capital Improvement Project Directly Expensed to WIC

The Health Department directly expensed a \$13,216 capital improvement project to the WIC Program rather than capitalizing and depreciating the project as required.

According to OMB Circular A-87 (located at 2 CFR Part 225), Appendix B, Section 15.b.(3):

Capital expenditures for improvements to land, buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost, except with the prior approval of the awarding agency.

OMB Circular A-87, Appendix B, Section 11.a. provides for the reporting of depreciation as the means for obtaining compensation for fixed assets as follows:

Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use.

The Michigan MI-WIC Policy Manual, Section 10.01 requires prior approval for capital expenditures over \$2,500 as follows:

Capital expenditures over \$2,500, such as the cost of facilities, equipment, including medical equipment, other capital assets and any repairs that materially increase the value of useful life of capital assets must be prior approved for purchase by USDA/FNS and MDCH-WIC.

The capital improvement project was to renovate the WIC Clinic. The Health Department requested prior approval, but due to extenuating circumstances, they did not receive official authorization from the awarding agency to directly expense this project. Accordingly, reporting depreciation expense is the means for obtaining compensation for the capital improvement project.

Adjustments removing the \$13,216 capital improvement project and allowing \$661 in depreciation are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that all capital improvement projects are capitalized and depreciated unless direct expensing has received prior approval.

Finding

2. Misreported Indirect Costs

The Health Department misreported their indirect costs on the FSR by not including all allocable costs from the County.

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

Per OMB Circular A-87 (located at 2 CFR Part 225), Appendix A - General Principles for Determining Allowable Costs, Section C. Basic Guidelines:

- 1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:...*
 - b. Be allocable to Federal awards under the provisions of 2 CFR Part 225...*
- 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...*

The Health Department did not include \$120,971 of the allocable \$352,338 County Central Service Costs when calculating the administrative overhead allocation. As a result, WIC Program costs were understated \$21,827 and WIC Breastfeeding Program costs were understated \$1,303.

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 administrative overhead allocation is calculated properly by including all allocable costs in the indirect cost pool.

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 Program for fiscal year ended September 30, 2013, is \$1,108,085. The MDCH obligation under the WIC Breastfeeding Program is \$57,437. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. Had indirect costs been reported properly (Finding #2), the Health Department would have been eligible for an additional \$10,138 from MDCH. However, MDCH's final WIC reporting to the USDA has occurred and there are no available FYE 2013 grant dollars to fund the additional allocable costs identified.

**Muskegon County Health Department
WIC Supplemental Food Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$1,193,245	\$1,108,085 1	\$0	\$1,108,085
Fees & Collections – 1 st & 2 nd	\$200	\$1,170	\$0	\$1,170
Local and Other Funds			\$9,272	\$9,272
TOTAL REVENUES	\$1,193,445	\$1,109,255	\$9,272	\$1,118,527
EXPENDITURES:				
Salary and Wages	\$486,686	\$470,990	\$0	\$470,990
Fringe Benefits	\$212,243	\$210,548	\$0	\$210,548
Contractual Dietician, Nutr.	\$2,242	\$2,413	\$0	\$2,413
Supplies	\$227,028	\$154,613	(\$12,555) 2	\$142,058
Travel	\$10,380	\$10,939	\$0	\$10,939
Communications	\$3,993	\$4,523	\$0	\$4,523
Space Costs	\$18,116	\$21,396	\$0	\$21,396
Other Expense	\$49,851	\$51,178	\$0	\$51,178
Other Cost Distributions	\$182,906	\$182,655	\$21,827 3	\$204,482
TOTAL EXPENDITURES	\$1,193,445	\$1,109,255	\$9,272	\$1,118,527

1 Actual MDCH payments.

2 Remove Unallowable Capital Improvement Project (\$13,216) & Add Allowable Depreciation (\$661) (Finding #1).

3 Understated Indirect Costs (Finding #2).

**Muskegon County Health Department
WIC Breastfeeding/Peer Counseling Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$58,303	\$57,437 ¹	\$0	\$57,437
Local and Other Funds	\$0	\$0	\$1,303	\$1,303
TOTAL REVENUES	\$58,303	\$57,437	\$1,303	\$58,740
EXPENDITURES:				
Salary and Wages	\$25,688	\$26,834	\$0	\$26,834
Fringe Benefits	\$16,056	\$13,838	\$0	\$13,838
Contractual Dietician, Nutr.	\$0	\$0	\$0	\$0
Supplies	\$2,454	\$2,598	\$0	\$2,598
Travel	\$1,771	\$1,298	\$0	\$1,298
Communications	\$219	\$456	\$0	\$456
Space Costs	\$200	\$168	\$0	\$168
Other Expense	\$1,180	\$1,346	\$0	\$1,346
Other Cost Distributions	\$10,735	\$10,900	\$1,303 ²	\$12,203
TOTAL EXPENDITURES	\$58,303	\$57,437	\$1,303	\$58,740

¹ Actual MDCH payments.

² Understated Indirect Costs (Finding #2).

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Capital Improvement Project Directly Expensed to WIC

The Health Department directly expensed a \$13,216 capital improvement project to the WIC Program rather than capitalizing and depreciating the project as required.

Recommendation: Implement policies and procedures to ensure that all capital improvement projects are capitalized and depreciated unless direct expensing has received prior approval.

Comments: The Health Department does not contest the finding; however, the Health Department feels that they properly initiated, requested, documented and fully met all of the conditions for prior approval of the awarding agency, but it was not obtained because MDCH WIC Division staff did not forward/submit the request for approval to USDA.

Corrective Action: The Health Department will take extra caution to ensure that all capital improvement projects are capitalized and depreciated unless direct expensing has received prior approval.

**Anticipated
Completion Date:** Ongoing

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Misreported Indirect Costs

The Health Department misreported their indirect costs on the FSR by not including all allocable costs from the County.

Recommendation: Implement policies and procedures to ensure that the administrative overhead allocation is calculated properly by including all allocable costs in the indirect cost pool.

Comments: The Health Department does not contest the finding. The Health Department agrees that actual indirect costs were misreported for FY12/13. Due, in large part, to receiving the actual indirect cost details after the fiscal year end, the Health Department unintentionally failed to make the retroactive adjustment. The Health Department understands that the adjustment would have resulted in additional WIC grant dollars allocated to Muskegon County.

Corrective Action: The Health Department has implemented a quality improvement and assurance end-of-the-fiscal-year checklist to ensure that the administrative overhead allocation is properly calculated and applied using all allocable costs in the indirect cost pool. The Health Department is confident that the indirect costs from the County will be accurately allocated and reported in subsequent years.

Anticipated Completion Date: September 30, 2014 and Ongoing

MDCH Response: None