

Audit Report

St. Clair County Health Department WIC & Family Planning Programs

October 1, 2011 – September 30, 2012



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

February 21, 2013

Annette Mercatante, MD, Health Officer and Medical Director
St. Clair County Health Department
3415 28th Street
Port Huron, MI 48060

Dear Dr. Mercatante:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the St. Clair County Health Department WIC and Family Planning Programs 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,

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Office of Audit

Enclosure

cc: Stan Bien, Director, WIC Division
Paulette Dobynes Dunbar, Manager, Division of Family and Community Health
Jeanette Lightning, Manager, Reproductive Health Unit
Pam Myers, Director, Office of Audit
Steve Utter, Financial Analyst, Division of Family and Community Health
Michael Gribbin, Auditor, Office of Audit
Keith Rubley, 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>	
<u>Internal Controls</u>	2
<u>Financial Reporting</u>	3
1. Salaries and Fringes Allocated Based on Predetermined Percentages	3
2. Employee Travel Voucher Paid Twice	4
3. County Overhead Costs Not Reported on FSR (Repeat).....	4
<u>MDCH Share of Costs</u>	5
Statement of MDCH Grant Program Revenues and Expenditures WIC	6
Statement of MDCH Grant Program Revenues and Expenditures FP	7
Corrective Action Plans	8

DESCRIPTION OF AGENCY

The St. Clair 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 St. Clair County, and the administrative office is located in Port Huron, Michigan. The Health Department operates under the legal supervision and control of the Board of Commissioners of St. Clair County. The Health Department provides community health program services to the residents of St. Clair 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, Medicaid Outreach, Maternal & Infant Health, Children's Special Health Care Services Outreach, Bioterrorism/Emergency Coordination, Family Planning, Tobacco Reduction 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.

The WIC Program was funded by MDCH Grant Funds, and First and Second Party Fees and Collections. 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.

The Family Planning Program was funded by MDCH Grant Funds, First and Third Party Fees and Collections, Local and Other Revenue. Grant funding from MDCH for the Family Planning Program is federal funding under federal catalog number 93.217, and is subject to performance requirements.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the WIC Program and Family Planning Program internal controls and financial reporting, and to determine the MDCH shares of WIC Program and Family Planning 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 Family Planning and WIC Programs.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program and WIC Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.

3. To determine the MDCH shares of cost for the Family Planning and WIC Programs 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 Health Department Single Audit report for any Family Planning Program or WIC Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program and WIC Program Financial Status Reports (FSRs) 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 Family Planning billing and collection of fees, and collection of donations.

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 Family Planning and WIC Programs.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the WIC and Family Planning Programs. However, we noted exceptions regarding salary and fringe benefit allocations, the payment of duplicate travel vouchers, and the lack of reporting County overhead costs on the FSR which are addressed under the Financial Reporting objective.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning 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 its WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, we noted exceptions regarding the allocation of salaries and fringes (Finding 1), payment of duplicate travel vouchers (Finding 2), and lack of reporting County overhead costs on the FSR (Finding 3).

Finding

1. Salaries and Fringes Allocated Based on Predetermined Percentages

The Health Department allocates salary and fringe benefit costs to programs based on a predetermined percentage in violation of Federal cost principles.

The Health Department does not allocate their salaries and fringes based on actual time spent on each program. The Health Department does not require their employees to complete personnel activity reports when they work on multiple programs. When reviewing salaries and wages for the Family Planning Program, we noted that employees' time was sometimes charged to multiple programs. The amount charged to each program is based on a predetermined rate and not by the actual time spent on each program. For the WIC Program, the employees occasionally work part of their time on Medicaid Outreach activities. However, personnel activity reports are not completed to support the allocation of salaries and wages. A substitute system for distributing salaries and wages has not been approved. When allocating fringe benefits, the Health Department uses the same percentages used for allocating salaries.

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

- (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 8. h. (5) of this appendix unless a statistical sampling system or other substitute system has been approved by the cognizant Federal agency...*
- (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.*

OMB Circular A-87, Appendix B, Section 8. d. (5) states, in pertinent part:

The cost of fringe benefits...shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that the distribution of salary and fringe benefit costs are in compliance with OMB Circular A-87.

Finding

2. Employee Travel Voucher Paid Twice

The Health Department reimbursed an employee twice for the same travel voucher and included the cost in the indirect cost pool.

The employee had signed both vouchers with different dates and the supervisor had also signed both with different dates.

OMB Circular A-87, Appendix A, Section C.1. states that for costs to be allowable under Federal awards, costs must meet the following general criteria:

- a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards.*

A duplicate payment for the same expenditure is not necessary and reasonable and is therefore unallowable. Adjustments will not be made since the ultimate impact on programs through the indirect allocation is insignificant.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that duplicate payments to vendors and employees do not occur.

Finding

3. County Overhead Costs Not Reported on FSR (Repeat)

The Health Department incurred overhead costs from the County, but did not report them on the FSR.

The MDCH Grant Agreement, Part II, Section IV., D. Financial Status Report Submission, states:

FSR's must report total actual program expenditures regardless of the source of funds.

OMB Circular A-87, Appendix A, General Principles for Determining Allowable Costs, Section C. 3. Allocable Costs, states:

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 County-Wide Cost Allocation Plans, prepared by Maximus, showed costs allocable to all County Departments including the Health Department. However, the Health Department did not report any of the allocable County costs on the FSR as required by contract.

Recommendation

We again recommend that the Health Department implement policies and procedures to ensure County overhead expenses allocable to the Health Department are reported on future FSRs.

MDCH SHARE OF COSTS

Objective 3: To determine the MDCH shares of cost for the WIC and Family Planning Programs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligation for fiscal year ended September 30, 2012, for the WIC Program is \$582,265, and for the Family Planning Program is \$134,001. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting MDCH grant program funding.

St. Clair 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
REVENUES:				
MDCH Grant	\$670,215	\$582,265 ¹	\$0	\$582,265
Fees 1 st & 2 nd Party	\$0	\$512	\$0	\$512
TOTAL REVENUES	\$670,215	\$582,778	\$0	\$582,778
EXPENDITURES:				
Salary & Wages	\$374,520	\$319,615	\$0	\$319,615
Fringe Benefits	\$144,685	\$140,066	\$0	\$140,066
Capital Expenses	\$0	\$0	\$0	\$0
Contractual Costs	\$0	\$0	\$0	\$0
Supplies	\$34,003	\$25,865	\$0	\$25,865
Travel	\$2,825	\$2,809	\$0	\$2,809
Communications	\$2,000	\$1,161	\$0	\$1,161
Space Cost	\$0	\$0	\$0	\$0
Other Expense	\$1,550	\$15	\$0	\$15
Indirect Cost	\$74,890	\$72,530		\$72,530
Other Cost Distributions	\$35,472	\$20,715	\$0	\$20,715
TOTAL EXPENDITURES	\$670,215	\$582,778	\$0	\$582,778

¹ Actual MDCH payments provided on a performance reimbursement basis.

St. Clair County Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/11 - 9/30/12

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$134,001	\$134,001 ¹	\$0	\$134,001
Fees 1 st & 2 nd Party	\$10,000	\$8,217	\$0	\$8,217
Fees & Collections - 3 rd Party	\$324,000	\$121,338	\$0	\$121,338
Local Funds Other	\$23,960	\$157,554	\$0	\$157,554
Miscellaneous Income	\$0	\$0	\$0	\$0
TOTAL REVENUES	\$491,961	\$421,110	\$0	\$421,110
EXPENDITURES:				
Salary & Wages	\$244,187	\$223,786	\$0	\$223,786
Fringe Benefits	\$92,912	\$90,180	\$0	\$90,180
Supplies	\$60,675	\$34,769	\$0	\$34,769
Travel	\$875	\$1,128	\$0	\$1,128
Communications	\$2,800	\$2,060	\$0	\$2,060
Space Cost	\$0	\$0	\$0	\$0
Admin Overhead	\$48,623	\$45,576	\$0	\$45,576
Nursing Supervision	\$19,189	\$17,873	\$0	\$17,873
Other Expense	\$22,700	\$5,738	\$0	\$5,738
TOTAL EXPENDITURES	\$491,961	\$421,110	\$0	\$421,110

¹ Actual MDCH payments provided on a performance reimbursement basis.

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Salaries and Fringes Allocated Based on Predetermined Percentages

The Health Department allocates salary and fringe benefit costs to programs based on a predetermined percentage in violation of Federal cost principles.

Recommendation: Implement policies and procedures to ensure that the distribution of salary and fringe benefit costs are in compliance with OMB Circular A-87.

Comments: Beginning FY 2013 (October 1, 2012), employees are entering their daily hours into the Time and Effort module of our newly acquired software program.

Corrective Action: Monthly time/activity reports are generated and sent via email as a pdf on the 5th of each month for the prior month's activity. This allows for employees to have their time/activity tracked as to which program they performed their daily duties. These reports are used in the preparation of a journal entry to allocate wages and fringe benefits to the proper programs. The journal entry then gets posted to the general ledger to complete the allocation process.

**Anticipated
Completion Date:** October 1, 2012

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Employee Travel Voucher Paid Twice

The Health Department reimbursed an employee twice for the same travel voucher and included the cost in the indirect cost pool.

Recommendation: Implement policies and procedures to ensure that duplicate payments to vendors and employees do not occur.

Comments: A procedure to track the submission and approval of employee travel/expense vouchers will be implemented.

Corrective Action: In order to ensure that there will be no further duplicate travel reimbursements, a spreadsheet has been developed and will be used to track the submission and approval of employee travel/expense vouchers.

**Anticipated
Completion Date:** January 1, 2013

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: County Overhead Costs Not Reported on FSR (Repeat)

The Health Department incurred overhead costs from the County, but did not report them on the FSR.

Recommendation: Implement policies and procedures to ensure that County overhead expenses allocable to the Health Department are reported on future FSRs.

Comments: Even though the allocation number exists in the Maximus report, County overhead costs are not being charged to the Health Department. The Health Department is a General Fund department of the County, and the County does not allocate costs to General Fund departments because it would require the county to increase their appropriation to cover the additional costs. Additionally, the County Controller's office has determined that it would be cost prohibitive to have the County-Wide Cost Allocation Plans modified to provide the detail necessary for including the County overhead costs at a programmatic level.

Corrective Action: None.

**Anticipated
Completion Date:** N/A

MDCH Response: The Health Department is required to report all costs associated with operating the WIC and Family Planning Programs on the FSR including all overhead costs per the contract with MDCH. The amount on the Maximus report that is allocable to the Health Department can be easily allocated to programs as other indirect costs are allocated to programs.