

Audit Report

Western Upper Peninsula 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

February 7, 2013

Guy St. Germain, MPA, Health Officer/Executive Officer
Western Upper Peninsula Health Department
540 Depot
Hancock, MI 49930

Dear Mr. Germain:

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; Corrective Action Plans; and Comments and Recommendations. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plans include the agency's response to the Preliminary Analysis. The Comments and Recommendations section includes areas where we believe there are opportunities for the agency to further strengthen internal controls or to increase operating efficiencies.

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
Jeanette Lightning, Manager, Reproductive Health Unit
Michael Gribbin, Auditor, Office of Audit

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DESCRIPTION OF AGENCY

The Western Upper Peninsula District Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a Special Revenue Fund of Houghton County, and the administrative office is located in Hancock, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of the counties of Baraga, Gogebic, Houghton, Keweenaw, and Ontonagon. The Health Department provides community health program services to the residents of these five counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, General Communicable Disease, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Oral Health, Family Planning, Children's Special Health Care Services (CSHCS), Bioterrorism/Emergency Coordination, Smoking Prevention, Maternal and Infant Health Services, 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 Health Department Single Audit report for any WIC Program concerns.
- Reviewed the completed fiscal review questionnaire.
- Reconciled the WIC Program Financial Status Report (FSR) to the accounting records.
- Reviewed payroll, indirect cost and other cost allocations for reasonableness, and an equitable methodology.
- Reviewed building space/lease costs for proper reporting and compliance with Federal Requirements.
- 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 reported its 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 financial reporting exception regarding time reporting for program activities (Finding 1).

Finding

1. Medicaid Outreach Adjustment Based on Budget

The Health Department reported a \$15,000 credit on the FSR to remove Medicaid Outreach related expenses, and this amount was based on a budget estimate rather than actual.

The Health Department's contract with MDCH requires that FSRs must report total actual program expenditures. Also, OMB Circular A-87 (located at 2 CFR Part 225), Appendix A, Section C.1. states that for 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...*
- j. Be adequately documented.*

Section C.3. 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.

Any costs benefitting Medicaid Outreach that are originally charged to WIC must be distributed to benefitting programs (Medicaid Outreach) in accordance with actual benefits received, and the allocation must be adequately documented. Furthermore, for accurate reporting of actual program expenditures, any credits for distributions to Medicaid Outreach should be netted against costs on the applicable lines of the FSR rather than a lump sum credit on a separate line on the FSR.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure that Medicaid Outreach adjustments are based on actual expenses and they are adequately documented, and they are credited to the applicable lines 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 Health Department.

Conclusion: The MDCH obligation under the WIC Program for fiscal year ended September 30, 2011, is \$269,673. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC grant program funding.

**Western Upper Peninsula 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	\$269,673	\$269,673 ¹	\$0	\$269,673
Local and Other Funds	\$15,002	\$9,975	(\$2,042)	\$7,933
TOTAL REVENUES	\$284,675	\$279,648	\$0	\$277,606
EXPENDITURES:				
Salary and Wages	\$157,267	\$149,375	(\$2,042) ²	\$147,333
Fringe Benefits	\$56,616	\$56,902	\$0	\$56,902
Capital Exp. - Infrastructure	\$0	\$0	\$0	\$0
Contractual	\$0	\$0	\$0	\$0
Supplies	\$7,205	\$6,625	\$0	\$6,625
Travel	\$2,200	\$2,095	\$0	\$2,095
Communications	\$4,000	\$3,409	\$0	\$3,409
Space Cost and Other	\$12,500	\$14,194	\$0	\$14,194
Indirect Cost	\$59,887	\$62,048	\$0	\$62,048
Medicaid Outreach Distrib.	(\$15,000)	(\$15,000)	\$0	(\$15,000)
TOTAL EXPENDITURES	\$284,675	\$279,648	\$0	\$277,606

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Compensated Absence Expense identified and removed by the Health Department, but the FSR was completed prior to removal. No impact on MDCH funding.

Corrective Action Plan

Finding Number: 1

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Finding: Medicaid Outreach Adjustment Based on Budget

The Health Department reported a \$15,000 credit on the FSR to remove Medicaid Outreach related expenses, and this amount was based on a budget estimate rather than actual.

Recommendation: Implement policies and procedures to ensure that Medicaid Outreach adjustments are based on actual expenses and they are adequately documented, and they are credited to the applicable lines on the FSR.

Comments: The Health Department agrees with this finding.

Corrective Action: Employees will record actual time spent on the Medicaid Outreach program.

**Anticipated
Completion Date:** Immediately

MDCH Response: None

Comments and Recommendations

1. Employee Leave Allocated Based on Scheduled Time

The Health Department allocates employee leave time based on scheduled program time rather than actual time spent on each program. According to OMB Circular A-87, all costs not directly related to a program must be allocated based on the relative benefits received. Distributions based on scheduled program time may not result in an equitable distribution in consideration of relative benefits derived. We recommend that the Health Department allocate leave time based on an employee's actual activities over a representative period of time. Estimates based on scheduled time may be used, but they should be updated at least quarterly based on actual activity of the employee.

Management Response: Western U.P. Health Department is in the process of implementing a new accounting and payroll software package. Our goal is to research allocation of leave time under the recommended methodology and to begin implementation of this policy by March 31, 2013.