



# Legislative Services Office

## Idaho State Legislature

Eric Milstead  
Director

*Serving Idaho's Citizen Legislature*

### MEMORANDUM

TO: Geri Rackow, Director, Eastern Idaho Public Health District  
Robert Cope, Chair, District VII Board of Health

FROM: Legislative Services Audit Team *AR*

DATE: November 10, 2014

SUBJECT: Legislative Services Office – Audit Update

We have completed our audit fieldwork at the Eastern Idaho Public Health District (VII) (District) for the fiscal years ended June 30, 2011 and 2012. We discussed the following issues with members of your staff and would like to discuss these with you at your convenience. Please extend our appreciation to your staff for the cooperation and assistance provided to us during the audit.

**1 – Fiscal year 2011 eligibility determinations were not adequately documented for some clients of the Supplemental Nutrition Program for Women, Infants, and Children (WIC).**

**Criteria:** The Code of Federal Regulations, (7 CFR sections 246.7(c), (d), (e), (g), and (l)), requires an applicant seeking WIC assistance to meet four criteria (categorical, identity and residency, income, and nutritional risk) in order to be determined eligible to receive WIC assistance. District staff document client eligibility by either including copies of eligibility documents or certifying observation of such documents in the applicant's file. Written statements from the applicant may also be used to support the eligibility criteria, when no other evidence exists.

**Condition:** We noted 5 of 60 applications reviewed lacked proper documentation of eligibility certification for fiscal year 2011. The documentation issues ranged from a missing application to missing proof of residency and missing proof of pregnancy.

**Cause:** The District did not document the eligibility certifications in the applicant's file using any of the allowable methods, and reviews intended to identify inadequate documentation failed to discover or remedy these errors.

**Effect:** WIC applicants may have been determined to be eligible for WIC assistance incorrectly.

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**Recommendation:** We recommend that the District document WIC eligibility certifications using a method allowable by the Code of Federal Regulations and ensure adequate internal controls are in place to prevent, or detect and correct, errors.

**2 – District internal controls failed to prevent or identify and correct errors that occurred in the compilation of the fiscal years 2011 and 2012 financial statements.**

**Criteria:** The Generally Accepted Accounting Principles (GAAP) financial presentation requirements applicable to basic financial statements are also applicable in substance to the District’s complete set of cash basis financial statements. Therefore, the proper classification of balances and activities within the financial statements are required. Proper classification categories include receipts and disbursements. Additionally, the balances and activities within each of these categories must disclose the type and nature of the balance and activity. This includes disclosure of the source of receipts and the type of disbursements.

Internal controls should be implemented and operating effectively to ensure that the amounts included in the financial statements are classified correctly. The Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies control activities that help ensure management directives are carried out throughout the operation. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties. The review and approval of the financial statements should be completed by a qualified and knowledgeable person.

**Condition:** The District financial statements are prepared by the fiscal staff using a software system and the prior year financial statements as a template. Once the compilation of the financial statements is complete, they are given to a hired consultant for review. The District explained that the consultant review consisted of tying each line from the working trial balance to the financial statements and verifying that the financial statements agreed to one another and footed properly. In addition, the consultant reviewed the note disclosures to ensure completeness and accuracy.

We noted the following errors during our analysis:

1. In fiscal year 2011, federal grant receipts totaling \$100,448 were improperly classified as State grant receipts on the Statement of Cash Receipts, Cash Disbursements and Changes in Cash Basis Fund Balance.
2. In fiscal year 2012, State grants receipts totaling \$61,410 were reported incorrectly on the Statement of Cash Receipts, Cash Disbursements, and Changes in Cash Basis Fund Balance.
3. The Cash and Cash Equivalents note to the financial statements included incorrect weighted average maturity information for the investment pools. The disclosure was not updated from the prior year.

**Cause:** The District’s internal controls over the compilation of the financial statements did not operate as intended to ensure materially accurate financial statements. The District’s accounting system is designed to commingle federal and State grant receipts requiring the fiscal staff to make adjustments to the data in order to compile the financial statements. Additionally, the internal controls over the review of those financial statements were not designed to be substantial enough to identify the errors in the financial statements and accompanying note disclosures. The person completing the review of the financial statements may have lacked specific experience and knowledge to identify the errors.

**Effect:** In fiscal year 2011, the federal grant receipts were understated by \$100,448 and State grant receipts were overstated by \$100,448. The misstated amounts were not material, and the District did not adjust the financial statements. In fiscal year 2012, federal grant receipts were originally misstated by \$61,410, and the disclosures for the weighted average maturity were not accurately updated. Both of the errors in fiscal year 2012 were corrected after discussions with the District staff.

**Recommendation:** We recommend that the District design and implement internal controls to ensure financial statements are compiled correctly and are adequately reviewed.

### **3 – The District spent federal Immunization Grant funds on unallowed costs for entertainment and promotional items.**

**Criteria:** The Office of Management and Budget (OMB) *Circular A-87* (now CFR Part 225), establishes Cost Principles for State, Local, and Indian Tribal Governments including principles for determining allowable direct and indirect costs for federal awards. OMB *Circular A-87* specifically addresses unallowed costs including entertainment costs, advertising, and public relations costs.

**Condition:** We identified a payment to a local professional baseball team for \$6,900 that was disbursed from the 2012 Immunizations Program. The District indicated that the payment was for an Advertising/Promotion package. The package included 500 game tickets for the Eastern Idaho Public Health Night, various advertising for the District, along with opportunities to have a display booth on the concourse to distribute information and further promote the District. In order to pay for the promotional package, the District applied for and received additional funding from the Idaho Department of Health and Welfare for \$4,982 which noted the Services/Provisions/Deliverables as “competitive funding added to support activity which rewards families with children whose immunizations are up-to-date with tickets to local sporting event.” Tickets to shows or sports events are listed in OMB *Circular A-87* Appendix B 14 as examples of unallowed entertainment costs.

We also identified disbursements for a \$50 gift card used as a winning prize in a drawing at a fair event and approximately \$50 worth of candy to give away at a fair event. These items are also listed in OMB *Circular A-87* Appendix B 1.f.A.(3) as unallowable advertising and public relations costs as promotional items and memorabilia including models, gifts, and souvenirs.

**Cause:** The District did not accurately interpret the requirements included in OMB *Circular A-87* which outlines allowable and unallowable costs. The District approved disbursements which may be appropriate for the District and its mission; however, the expenses are not appropriate or allowed for the use of federal funds.

**Effect:** The District disbursed \$7,000 for unallowed costs to the Immunizations Program.

**Recommendation:** We recommend that the District use the guidance provided by OMB *Circular A-87* to determine the allowability of costs charged to a federal program.

**4 - The internal controls processes over federal reporting requirements were not sufficiently documented.**

**Criteria:** The Internal Control Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) identifies control activities that help ensure management directives are carried out throughout the operation. These activities include approvals, authorizations, verifications, reconciliations, and segregation of duties. The Code of Federal Regulations (7 CFR sections 246.6(a)(1)) requires the Idaho Department of Health and Welfare (DHW) to compel the District to provide both financial and program information to DHW in a timely manner in order to complete State level reporting to the federal government. For the WIC program, the District reports financial and program information on a quarterly basis. A documented review of the financial and program information should be completed prior to submission to DHW. The Immunization program requires maintenance of inventory records to ensure the proper recording of receipt, transfer, and usage of vaccines. A documented review of the inventory records should be completed in a timely manner. The approvals, authorizations, and verifications need sufficient documentation to allow the auditor to verify the completion of those internal controls.

**Condition:** The Immunizations program management and staff do not document the review of the District's inventory reports. In addition, the reviews of the quarterly WIC reports provided to DHW are not documented.

**Cause:** Based on our inquiries of the District staff, it appears that the reviews have been completed. However, the reviewers are communicating the completion and approval of the reviews verbally without any documentation to support completion of the review or resolution of discrepancies noted.

**Effect:** During our analysis of the Immunizations inventory reports and the WIC quarterly reports, we did not encounter any exceptions.

**Recommendation:** We recommend that the District implement procedures to formally document reviews of required reports and resolution of any discrepancies noted.