

# Audit Report

Central Michigan District Health Department  
Family Planning Program

October 1, 2009 – September 30, 2010



Office of Audit  
Quality Assurance and Review  
December 2011



RICK SNYDER  
GOVERNOR

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

OLGA DAZZO  
DIRECTOR

December 2, 2011

Mary Kushion, Health Officer  
Central Michigan District Health Department  
2012 E. Preston Avenue  
Mt Pleasant, Michigan 48858

Dear Ms. Kushion:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Central Michigan District Health Department Family Planning Program for the period October 1, 2009 through September 30, 2010.

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 Plan. The conclusions, findings, and recommendations are organized by audit objective. The Corrective Action Plan includes the agency's response to the Preliminary Analysis. **Note that the agency's response to the Preliminary Analysis did not completely address the finding and recommendation. Accordingly, we have included additional comments at the end of the Corrective Action Plan.**

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: Paulette Dobyne Dunbar, Manager, Division of Family and Community Health  
Pam Myers, Director, Office of Audit  
Keith Rubley, Auditor, Office of Audit

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## **DESCRIPTION OF AGENCY**

The Central Michigan 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 Isabella County, which is the reporting entity, and the administrative office is located in Mount Pleasant, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Isabella, Arenac, Clare, Gladwin, Osceola, and Roscommon Counties. The Health Department provides community health program services to the residents of Isabella, Arenac, Clare, Gladwin, Osceola and Roscommon Counties. 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, AIDS/HIV Prevention, Women Infant and Children Supplemental Food Program (WIC), Bioterrorism/Emergency Preparedness, Medicaid Outreach, and Family Planning Program.

## **FUNDING METHODOLOGY**

The Health Department services are funded from local appropriations, fees and collections, and grant programs administered through the Michigan Department of Community Health (MDCH), which consist of federal and state funds. 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 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. 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 Family Planning Program internal controls and financial reporting, and to determine the MDCH share of 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 Program.
2. To assess the Health Department's effectiveness in reporting their Family Planning 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 share of cost for the Family Planning 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, 2009 to September 30, 2010. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any Family Planning Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program Financial Status Report (FSR) 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 Medical Supply inventory records.
- 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 Program.

**Conclusion:** The Health Department was effective in establishing and implementing internal controls over the Family Planning Program. We noted one exception related to the Family Planning Program. We noted that quarterly review of Family Planning activity was not performed (Finding 1).

## **Finding**

### **1. Salary and Wage Distributions Not Reviewed Quarterly and Adjusted**

The Health Department allocates salaries and wages to the Family Planning Program based on distribution percentages determined before the services are performed, but does not compare actual costs to distributions on a quarterly basis or make required adjustments to reported costs as required by OMB Circular A-87.

The Health Department reviews the activity of Family Planning Program employees every six months and makes adjustments to distribution percentages. The distribution percentages are used for the next six months to allocate salaries and wages to the Family Planning Program. Quarterly comparisons and adjustments to distribution percentages and actual costs are not done as required.

The Health Department's contract with MDCH (Part II, Section III, Part A.) requires compliance with OMB Circular A-87 (located at 2 CFR Part 225). OMB Circular A-87, Appendix B, Section 8. h. (5.) (e.) states the following with respect to salary and wage allocations:

*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 provided that:...*

- (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the difference between budgeted and actual costs are less than ten percent; and*
- (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.*

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure the distribution percentages for salaries and wages are compared to actual and adjusted at least quarterly, and costs are adjusted to actual on a quarterly basis (can be done annually if the difference between budgeted and actual costs is less than ten percent).

## FINANCIAL REPORTING

**Objective 2:** To assess the Health Department's effectiveness in reporting their Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles.

**Conclusion:** The Health Department reported their Family Planning Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. We noted no exceptions with the Family Planning Program.

## MDCH SHARE OF COSTS AND BALANCE DUE

**Objective 3:** To determine the MDCH share of cost for the Family Planning 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 Family Planning Program for fiscal year ended September 30, 2010, is \$264,567. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting the Family Planning Program.

**Central Michigan District Health Department  
Family Planning Program  
Statement of MDCH Grant Program Revenues and Expenditures  
10/1/09 - 9/30/10**

	<b>BUDGETED</b>	<b>REPORTED</b>	<b>AUDIT ADJUSTMENT</b>	<b>ALLOWABLE</b>
<b>REVENUES:</b>				
MDCH Grant	\$264,567	\$264,567 <sup>1</sup>	\$0	\$264,567
Fees 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$100,000	\$14,552	\$0	\$14,552
Fees & Collections - 3 <sup>rd</sup> Party	\$50,000	\$163,219	\$0	\$163,219
Cost Based Reim Match / Title XIX	\$125,000	\$125,000	\$0	\$125,000
Fed/State (non-MDCH)	\$155,000	\$0	\$0	\$0
Local Funds Other	\$89,811	\$189,393	\$0	\$189,393
<b>TOTAL REVENUES</b>	<b>\$784,378</b>	<b>\$756,731</b>	<b>\$0</b>	<b>\$756,731</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$288,084	\$297,522	\$0	\$297,522
Fringe Benefits	\$76,545	\$71,139	\$0	\$71,139
Supplies	\$185,000	\$198,772	\$0	\$198,772
Travel	\$3,800	\$5,363	\$0	\$5,363
Communications	\$5,800	\$5,288	\$0	\$5,288
Other Expenses	\$10,000	\$8,697	\$0	\$8,697
Federal Provide Vaccine Value	\$3,900	\$0	\$0	\$0
Admin Overhead	\$122,151	\$112,818	\$0	\$112,818
Nursing Administration	\$89,098	\$57,132	\$0	\$57,132
<b>TOTAL EXPENDITURES</b>	<b>\$784,378</b>	<b>\$756,731</b>	<b>\$0</b>	<b>\$756,731</b>

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

## Corrective Action Plan

**Finding Number** 1

**Page Reference** 3

**Finding:** **Salary and Wage Distributions Not Reviewed Quarterly and Adjusted**

The Health Department allocates salaries and wages to the Family Planning Program based on distribution percentages determined before the services are performed, but does not compare actual costs to distributions on a quarterly basis or make required adjustments to reported costs as required by OMB Circular A-87.

**Recommendation:** Implement policies and procedures to ensure the distribution percentages for salaries and wages are compared to actual and adjusted at least quarterly, and costs are adjusted to actual on a quarterly basis (can be done annually if the difference between budgeted and actual costs is less than ten percent).

**Comments:** The Central Michigan District Health Department currently has quarterly Fiscal Fitness meetings for the Administrative Staff and accounting staff. The annual budget is based on the employee staff matrix, which lists each employee and the amount of budgeted time in each program. This time is determined by a review of actual time worked in each program that is entered by each employee into the agency automated payroll/travel system.

**Corrective Action:** The agency will implement a policy to ensure the distribution percentages for salaries and wages are compared to actual time worked and adjusted quarterly in our budget, unless the difference between budgeted and actual cost is less than ten percent, which then will be done annually.

**Anticipated  
Completion Date:** March 31, 2012

**MDCH Response:** The Health Department response did not completely address the finding and recommendation. The Health Department response indicated that the distribution percentages would be adjusted; however, there was no indication that costs would be adjusted to actual as required by OMB Circular A-87. The distribution percentages may only be used for interim accounting purposes, and adjustments to actual costs must be made.