

Audit Report

District Health Department #2
Family Planning and WIC Programs

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review
August 2012



RICK SNYDER
GOVERNOR

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

OLGA DAZZO
DIRECTOR

August 1, 2012

Ms. Lynnette Benjamin, Public Health Officer
District Health Department #2
630 Progress Street
West Branch, Michigan 48661

Dear Ms. Benjamin,

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the District Health Department #2 Family Planning and WIC Programs 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; Statements of MDCH Grant Program Revenues and Expenditures; Cost vs. Amounts Billed for Supplies and Services Schedule; 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 paraphrased response to the Preliminary Analysis. The Comments and Recommendations section includes an issue regarding the reporting of collections for the Family Planning Program.

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
Paulette Dobyne Dunbar, Manager, Division of Family and Community Health
Pam Myers, Director, Office of Audit
Mike Gribbin, Auditor, Office of Audit
Keith Rubley, Auditor, Office of Audit
Steve Utter, Financial Analyst, Division of Family and Community Health

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DESCRIPTION OF AGENCY

The District Health Department #2 (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Ogemaw County, which is the reporting entity, and the administrative office is located in West Branch, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners from Alcona, Iosco, Ogemaw, and Oscoda Counties. The Health Department provides community health program services to the residents of these four counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Breast and Cervical Cancer Control Prevention (BCCCP), Immunizations, General Communicable Disease Control, Sexually Transmitted Disease Control, AIDS/HIV Prevention, Women Infant and Children Supplemental Food Program (WIC), Bioterrorism 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.

The WIC and WIC Breastfeeding Programs were funded by MDCH Grant Funds, and Other Local Funds. Grant funding from MDCH for the WIC Programs is federal funding under federal catalog number 10.557, and is first source funding subject to performance requirements.

PURPOSE AND OBJECTIVES

The purpose of this audit was to assess the Family Planning Program, WIC Program, and WIC Breastfeeding Program internal controls and financial reporting, and to determine the MDCH shares of Family Planning Program, WIC Program, and WIC Breastfeeding 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, WIC Program, and WIC Breastfeeding Program.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program, WIC Program, and WIC Breastfeeding 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 Program, WIC Program, and WIC Breastfeeding 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 Family Planning Program, WIC Program, or WIC Breastfeeding Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program, WIC Program, and WIC Breastfeeding 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 building space costs for proper reporting and compliance with Federal requirements.
- 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, WIC Program, and WIC Breastfeeding Program.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning Program, WIC Program, and WIC Breastfeeding Program. We noted one exception related to the Family Planning Program. We noted that billing rates were not sufficient to recover cost (Finding 1).

Finding

1. Billing Rates Not Sufficient to Recover Cost

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

For our test, we multiplied the billing rate for each service and supply times the number of times each service/supply was provided during the year. This determined the maximum annual recovery if every client was billed (and paid) the maximum amount billable per the fee schedule. When this was compared to the total cost of \$245,483 we found the rates used would not recover \$108,067 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule).

Title X regulations at 42CFR59.5 (a) state, in part:

*...Each project supported under this part must:
...(8) Provide that charges will be made for services to persons other than those from low-income families in accordance with a fee schedule of discounts based on ability to pay, except that charges to persons from families whose annual income exceeds 250 percent of the levels set forth in the most recent Poverty Guidelines...will be made in accordance with a schedule of fees designed to recover the reasonable cost of providing services....*

Because the Health Department fee schedule cannot recover the total cost of services and supplies, amounts charged to persons from families whose annual income exceeds 250% of the Poverty Guidelines will not recover the reasonable cost of providing services.

The estimated effect is that an amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$7,846, and billing rates were about 44% below full cost recovery, we can estimate the effect was \$6,175 for the year.

Recommendation

We recommend that the Health Department comply with the Title X regulations by increasing its billing rates to an amount that is sufficient to recover the reasonable cost of services.

FINANCIAL REPORTING

Objective 2: To assess the Health Department's effectiveness in reporting their Family Planning Program, WIC Program, and WIC Breastfeeding 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 generally reported their Family Planning Program, WIC Program, and WIC Breastfeeding Program financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, exceptions were noted with reporting a nurse practitioner reimbursement in the Family Planning Program (Finding 2), and the allocation of indirect overhead (Finding 3).

Finding

2. Nurse Practitioner Reimbursement Improperly Reported

The Health Department improperly reported a reimbursement for nurse practitioner services provided to another Health Department as revenue rather than an expenditure reduction.

The nurse practitioner is an employee of the Health Department and during the year she also worked for the Central Michigan District Health Department (CMDHD). The Health Department was reimbursed \$7,000 for the time spent at CMDHD. This money was recorded as revenue for the Family Planning Program. The \$7,000 reimbursement should have been recorded as a reduction in Salaries & Wages and not as a revenue item.

OMB Circular A-87 (2 CFR Part 225), Appendix A, Section C. states:

1. *Factors affecting allowability of cost. To be allowable under Federal awards, costs must meet the following general criteria:...*
 - i. *Be the net of all applicable credits.*

4. *Applicable credits.*
 - a. *Applicable credits refer to those receipts or reduction of expenditure-type transactions that offset or reduce expense items allocable to Federal awards as direct or indirect costs.*

Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures. This had no impact on MDCH funding.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that all appropriate credits are deducted when reporting expenditures.

Finding

3. Overstated Indirect Overhead Cost Allocation

The Health Department included unallowable bad debt expense of \$52,396 in the Administration cost pool, which resulted in overcharging all programs.

The Health Department's agreement with MDCH requires compliance with OMB Circular A-87. OMB Circular A-87, located at 2 CFR 225, Appendix B, Section 5, states:

Bad debts. Bad debts, including losses (whether actual or estimated) arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable.

Adjustments for the unallowed costs are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures. The adjustments had no impact on MDCH grant funds since the amount of local funds provided for each program exceeded the disallowed amount.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure that unallowable costs are not included in the Indirect Cost Allocation.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the Family Planning Program, WIC Program, and WIC Breastfeeding 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, 2011 is \$73,967, under the WIC Program is \$279,007, and under the WIC Breastfeeding Program is \$60,521. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting the Family Planning Program, WIC Program, or WIC Breastfeeding Program funding.

District Health Department #2
WIC Resident
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$279,007	\$279,007 1	\$0	\$279,007
Other Non-LPHO	\$12,000	\$8,173	\$0	\$8,173
Local Funds	\$106,690	\$39,804	(\$4,455)	\$35,349
TOTAL REVENUES	\$397,697	\$326,984	(\$4,455)	\$322,529
EXPENDITURES:				
Salary and Wages	\$187,977	\$160,346	\$0	\$160,346
Fringe Benefits	\$101,508	\$88,618	\$0	\$88,618
Supplies	\$2,540	\$2,784	\$0	\$2,784
Travel	\$14,515	\$12,262	\$0	\$12,262
Communications	\$11,837	\$12,985	\$0	\$12,985
Space Cost	\$19,260	\$18,623	\$0	\$18,623
Other Expense	\$5,625	\$4,931	\$0	\$4,931
Admin Overhead	\$66,582	\$51,627	(\$4,455) 2	\$47,172
Nursing	\$17,807	\$7,707		\$7,707
Medicaid Distribution	(\$29,954)	(\$32,899)		(\$32,899)
TOTAL EXPENDITURES	\$397,697	\$326,984	(\$4,455)	\$322,529

1 Actual MDCH payments provided on a performance reimbursement basis

2 Overstated indirect cost allocation due to bad debt expense (Finding 3)

District Health Department #2
WIC Breastfeeding
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$60,521	\$60,521 ¹	\$0	\$60,521
Other Non-LPHO	\$0	\$0	\$0	\$0
Local Funds	\$5,577	\$997	(\$718)	\$279
TOTAL REVENUES	\$66,098	\$61,518	(\$718)	\$60,800
EXPENDITURES:				
Salary and Wages	\$35,581	\$31,740	\$0	\$31,740
Fringe Benefits	\$11,742	\$9,772	\$0	\$9,772
Supplies	\$2,100	\$2,934	\$0	\$2,934
Travel	\$2,297	\$4,436	\$0	\$4,436
Communications	\$1,200	\$304	\$0	\$304
Space Cost	\$539	\$2,476	\$0	\$2,476
Other Expense	\$1,755	\$1,273	\$0	\$1,273
Admin Overhead	\$10,884	\$8,583	(\$718) ²	\$7,865
TOTAL EXPENDITURES	\$66,098	\$61,518	(\$718)	\$60,800

¹ Actual MDCH payments provided on a performance reimbursement basis

² Overstated indirect cost allocation due to bad debt expense (Finding 3)

District Health Department #2
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/10 - 9/30/11

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$73,967	\$73,967 ¹	\$0	\$73,967
Fees 1 st & 2 nd Party	\$0	\$0	\$7,846 ²	\$7,846
Fees & Collections – 3 rd Party	\$54,512	\$65,152	(\$9,228) ²	\$55,924
Local Funds	\$159,106	\$115,888	(\$8,142)	\$107,746
TOTAL REVENUES	\$287,585	\$255,007	(\$9,524)	\$245,483
EXPENDITURES:				
Salary & Wages	\$121,877	\$117,266	(\$6,460) ^{3,5}	\$110,806
Fringe Benefits	\$53,626	\$51,063	\$74 ⁵	\$51,137
Supplies	\$25,600	\$14,084	\$0	\$14,084
Travel	\$5,500	\$6,380	\$0	\$6,380
Communications	\$6,899	\$8,300	\$0	\$8,300
Space Cost	\$13,549	\$13,839	\$0	\$13,839
Other Expenses	\$8,599	\$4,560	\$0	\$4,560
Admin Overhead	\$40,366	\$35,032	(\$3,138) ⁴	\$31,894
Other Distributions	\$11,569	\$4,483	\$0	\$4,483
TOTAL EXPENDITURES	\$287,585	\$255,007	(\$9,524)	\$245,483

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
- ² 1st and 2nd Party reported as 3rd Party and overstated by \$1,382. Nothing reported in 1st and 2nd party due to E-Grants restriction (no budget).
- ³ Reimbursement of \$7,000 from Central MI DHD for Nurse Practitioner (Finding 2).
- ⁴ Overstated indirect cost allocation due to bad debt expense (Finding 3).
- ⁵ Minor differences between general ledger and FSR.

**District Health Department #2
Family Planning
Cost vs. Amounts Billed for Supplies and Services Schedule
10/1/10 – 9/30/11**

	<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
99394	Office Visit Est 12-17	32	\$110.00	\$3,520.00
99395	Office Visit Est 18-39	263	\$112.00	\$29,456.00
99396	Office Visit Est 40-64	17	\$124.00	\$2,108.00
99384	Office Visit New 12-17	58	\$137.00	\$7,946.00
99385	Office Visit New 18-39	117	\$137.00	\$16,029.00
99386	Office Visit New 40-64	13	\$162.00	\$2,106.00
99201	Problem Focused	1	\$27.00	\$27.00
99211	RN Evaluation	804	\$20.00	\$16,080.00
99202	Expanded Problem	1	\$47.00	\$47.00
99203	Detailed Problem	65	\$28.00	\$1,820.00
81025	Urine Preg Test	402	\$12.00	\$4,824.00
87210	Wet Mount	2	\$6.00	\$12.00
3205	Diflucan	11	\$20.00	\$220.00
3206	Microazole	9	\$20.00	\$180.00
4993	Oral Contraceptives	2212	\$14.00	\$30,968.00
J1055	Depo	474	\$30.00	\$14,220.00
J7300	IUD Paragard	5	\$251.00	\$1,255.00
J7303	Nuva Ring	103	\$38.00	\$3,914.00
S4993	Plan B	10	\$14.00	\$140.00
4267	Condoms 1 DZ	424	\$6.00	\$2,544.00
				\$137,416.00
	Total Expenses			\$245,483.00
	(Shortfall)/Excess			(\$108,067.00)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Billing Rates Not Sufficient to Recover Cost**

The Health Department's billing rates for family planning services and supplies were generally too low to recover cost. Therefore, clients from households with an annual income that exceeded 250% of the poverty guideline were not charged for the reasonable cost of providing services as required by Title X regulations.

Recommendation: Comply with the Title X regulations by increasing billing rates to an amount that is sufficient to recover the reasonable cost of services.

Comments: The Health Department will comply with Title X regulations and will increase billing rates to an amount that is sufficient to recover the reasonable cost of services. The cost of providing services to family planning clients was analyzed and was compared to the Title X Family Planning Cost Study Data.

Corrective Action: Family Planning medical visit fees will be increased based on the cost analysis and sent to the Board of Health for approval.

Anticipated Completion Date: New fees will be implemented on or before August 1, 2012.

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: **Nurse Practitioner Reimbursement Improperly Reported**

The Health Department improperly reported a reimbursement for nurse practitioner services provided to another Health Department as revenue rather than an expenditure reduction.

Recommendation: Adopt policies and procedures to ensure that all appropriate credits are deducted when reporting expenditures.

Comments: Revenue was deducted from expenses prior to using MDCH funds.

Corrective Action: The Health Department will code reimbursements as an offset to expenses rather than revenue.

**Anticipated
Completion Date:** Immediately

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Overstated Indirect Overhead Cost Allocation

The Health Department included unallowable bad debt expense in the Administration cost pool, which resulted in overcharging all programs.

Recommendation: Adopt policies and procedures to ensure that unallowable costs are not included in the Indirect Cost Allocation.

Comments: This was an oversight.

Corrective Action: The Health Department will not include unallowable bad debt expense in the Administrative Overhead.

**Anticipated
Completion Date:** Immediately

MDCH Response: None

Comments and Recommendations

Comment: The Health Department included 1st and 2nd Party Fees and Collections (Private Pay and Donations) with 3rd Party Collections (insurance payments) and reported one amount for collections for the Family Planning Program. Since there was no budget amount for 1st and 2nd Party Fees and Collections, E-Grams would not allow reporting of this on the correct line. Additionally, Fees and Collections were overstated by \$1,382.

Recommendation: We recommend that the Health Department separate 1st and 2nd Party Collections from 3rd Party Collections in their budget. Also, we recommend that the Health Department adopt policies and procedures to ensure the accurate reporting of fees and collections on the correct lines of the FSR.

**Health Department
Response:**

Effective immediately, the Health Department will separate 1st and 2nd Party Collections from 3rd Party Collections.