

# Audit Report

Huron County Health Department  
Family Planning Program

October 1, 2009 – September 30, 2010



Office of Audit  
Quality Assurance and Review  
August 2011



RICK SNYDER  
GOVERNOR

STATE OF MICHIGAN  
DEPARTMENT OF COMMUNITY HEALTH  
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August 18, 2011

Ms. Gretchen Tenbusch, R.N., M.S.A.  
Health Officer  
Huron County Health Department  
1142 S. Van Dyke Road  
Bad Axe, Michigan 48413

Dear Ms. Tenbusch:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Huron County 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 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.

Action was not taken to correct Finding #2 whereby administrative costs were misallocated. The reason given was that the MI Works Program has a 10% limitation on indirect costs so they are removed from the formula when calculating the indirect rate. Regardless of any indirect cost limitation, each program that benefits from the indirect cost must receive an appropriate allocation of indirect costs. By excluding the MI Works Program from the allocation base, the other programs are being allocated a disproportionate share of the indirect cost. **Action must be taken to ensure that the indirect cost distribution base is accurate to ensure the indirect cost pool is equitably distributed to cost objectives in accordance with relative benefits received for fiscal year end 2011 reporting.**

Ms. Gretchen Tenbusch, R.N., M.S.A.  
Health Officer  
Huron County Health Department  
August 18, 2011  
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If you have any questions, please contact me at 517-241-7598. 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 Huron 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 Huron County, which is the reporting entity, and the administrative office is located in Bad Axe, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Huron County. The Health Department provides community health program services to the residents of Huron 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, AIDS/HIV Prevention, Women Infant and Children Supplemental Food Program (WIC), Bioterrorism/Emergency Preparedness, Tobacco Reduction, 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 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.

**Conclusion:** The Health Department was generally effective in establishing and implementing internal controls over the Family Planning Program. However, 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 reported cost of \$166,902 we found the rates used would not recover \$35,254 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. Since the amount recovered from all clients was \$12,168 and billing rates were 21.12% under cost, we can estimate the effect was \$3,258 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 and 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 financial activity to MDCH in accordance with applicable Department of Community Health requirements and agreements, applicable federal standards, and generally accepted accounting principles. However, one exception was noted in the administrative cost allocation (Finding 2).

### Finding

#### **2. Administrative Cost Misallocated**

The Health Department reduced the indirect cost distribution base of total agency salaries and fringes by the total expenditures incurred for the Michigan Works program resulting in an inflated administrative cost rate and over reported expenditures for the Family Planning Program and other MDCH programs.

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). For costs to be allowable under Federal awards, costs must be allocable to Federal awards under the provisions of 2 CFR Part 225. According to Appendix A of 2 CFR Part 225:

- C. 3. a. 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.*
- C. 3. b. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.*
- F. 1. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.*

The Health Department's administrative costs that have been incurred for a common or joint purpose benefitting more than one cost objective are allocated to the Health Department's programs based salaries and fringes of each benefitting program. The Health Department, however, deducted the amount of total expenditures (\$68,345) for the Michigan Works program from the salaries and fringes allocation base resulting in an inequitable allocation base. By removing this amount from the base, the overhead rate increased from 20.53% to 21.41%. The inflated administrative cost rate resulted in a \$760 over allocation of administration to the Family Planning Program. However, this had no impact on MDCH funding since local funds were used to support well in excess of that amount. This allocation rate error also resulted in over allocations of administration to other MDCH programs, but had no impact on MDCH funding due to the levels of local funding.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure that the indirect cost distribution base is accurate to ensure the indirect cost pool is equitably distributed to cost objectives in accordance with relative benefits received.

## **MDCH SHARE OF COST 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 \$46,768. The attached Statement of MDCH Grant Program Revenues and Expenditures shows the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning Program.

**Huron County 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	\$46,768	\$46,768 <sup>1</sup>	\$0	\$46,768
Fees 1 <sup>st</sup> & 2 <sup>nd</sup> Party	\$12,020	\$12,168	\$0	\$12,168
Fees & Collections - 3 <sup>rd</sup> Party	\$44,306	\$47,009	\$0	\$47,009
Fed/State Funding (Non-MDCH)	\$53,841	\$41,841	\$0	\$41,841
MCH	\$14,241	\$14,241	\$0	\$14,241
Local Funds Other	\$1,141	\$4,874	\$0	\$4,874
<b>TOTAL REVENUES</b>	<b>\$172,317</b>	<b>\$166,901</b>	<b>\$0</b>	<b>\$166,901</b>
<b>EXPENDITURES:</b>				
Salary and Wages	\$57,008	\$55,248	\$0	\$55,248
Fringe Benefits	\$36,213	\$33,722	\$0	\$33,722
Supplies	\$26,793	\$27,484	\$0	\$27,484
Travel	\$733	\$978	\$0	\$978
Other Expenses	\$10,269	\$10,457	\$0	\$10,457
Space Cost	\$12,207	\$11,014	\$0	\$11,014
Admin Overhead	\$19,576	\$19,025	\$0	\$19,025
Nursing Administration	\$9,518	\$8,973	\$0	\$8,973
<b>TOTAL EXPENDITURES</b>	<b>\$172,317</b>	<b>\$166,901</b>	<b>\$0</b>	<b>\$166,901</b>

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

**Huron County Health Department  
Family Planning  
Cost vs. Amounts Billed for Supplies and Services Schedule  
10/1/09 – 9/30/10**

<u>Procedure</u>	<u>Total Quantity</u>	<u>Price</u>	<u>Total</u>
Problem Focused	54	\$35.00	\$1,890.00
Expanded Problem	5	\$45.00	\$225.00
Initial – 12-17	57	\$120.00	\$6,840.00
Initial – 18-39	73	\$120.00	\$8,760.00
Initial – 40-64	1	\$140.00	\$140.00
Office Visit RN	754	\$20.00	\$15,080.00
Annual Visit 12-17	31	\$90.00	\$2,790.00
Annual Visit 18-39	298	\$90.00	\$26,820.00
Annual Visit 40-64	1	\$95.00	\$95.00
Court Ordered	6	\$160.00	\$960.00
Urine Preg Test	180	\$15.00	\$2,700.00
Hemoglobin	2	\$10.00	\$20.00
Wet Prep	5	\$15.00	\$75.00
Micronor	15	\$18.00	\$270.00
Lo Ovral	554	\$18.00	\$9,972.00
Orthocyclen	410	\$18.00	\$7,380.00
Orthotricyclen	848	\$18.00	\$15,264.00
Ortho 777	265	\$18.00	\$4,770.00
Tri Cyclen LO	640	\$18.00	\$11,520.00
Patch	32	\$15.00	\$480.00
Depo	276	\$45.00	\$12,420.00
Diaphragm	3	\$15.00	\$45.00
Nuva Ring	18	\$40.00	\$720.00
Plan B	11	\$18.00	\$198.00
Condoms	533	\$3.50	\$1,865.50
Foam	6	\$10.00	\$60.00
Lutera	16	\$18.00	\$288.00
			<u>\$131,647.50</u>
Total Expenses			<u>\$166,901.63</u>
(Shortfall)/Excess			<u>(\$35,254.13)</u>

## 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:** None.

**Corrective Action:** Billing rates will be re-evaluated and taken to the Board of Health for approval. The new rates will be effective January 2012.

**Anticipated  
Completion Date:** January 2012.

**MDCH Response:** None.

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 4

**Finding:** Administrative Cost Misallocated

The Health Department reduced the indirect cost distribution base of total agency salaries and fringes by the total expenditures incurred for the Michigan Works program resulting in an inflated administrative cost rate and over reported expenditures for the Family Planning Program and other MDCH programs.

**Recommendation:** Implement policies and procedures to ensure that the indirect cost distribution base is accurate to ensure the indirect cost pool is equitably distributed to cost objectives in accordance with relative benefits received.

**Comments:** We are only allowed to charge 10% indirect costs to the MI Works grant. Therefore, we have taken the costs for MI Works out of the formula when we calculate the indirect rate. Indirect is being calculated based on approval by former MDCH consultants, outside program auditors, and the auditing firm for the County of Huron.

**Corrective Action:** Not applicable – see comment above.

**Anticipated Completion Date:** Not applicable – see comment above.

**MDCH Response:** Removing an activity (MI Works) that benefits from the government's indirect cost from the allocation base is a violation of OMB Circular A-87.

According to Appendix A of 2 CFR Part 225, Section C. 3. b.:

*All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.*

Even though the Health Department may be limited in the amount of indirect that they may charge to the MI Works Program, the Health Department still needs to include the program in the formula so an appropriate allocation is made to all programs that receive the benefit from the government's indirect cost. By excluding the MI Works Program from the allocation base, the other programs are being allocated a disproportionate share of the indirect cost. Action must be taken to ensure that the indirect cost distribution base is accurate to ensure the indirect cost pool is equitably distributed to cost objectives in accordance with relative benefits received.