

Audit Report

Mid-Michigan District Health Department
Family Planning, WIC and Breastfeeding 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

Mr. Marcus Cheatham, Health Officer
Mid-Michigan District Health Department
615 N. State Street
Stanton, Michigan 48888-9702

Dear Mr. Cheatham,

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Mid-Michigan District Health Department Family Planning, WIC and WIC Breastfeeding 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 Plan; and Comments and Recommendations.

The Corrective Action Plan, and Comments and Recommendations include the agency's response to the Preliminary Analysis.

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 Mid 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 Montcalm County, which is the reporting entity, and the administrative office is located in Stanton, 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 Clinton, Gratiot, and Montcalm. The Health Department provides community health program services to the residents of these three 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, Children's Special Health Care Services, Dental Care, 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.

The WIC and Breastfeeding Programs were funded by MDCH Grant Funds, and Other Local Funds. Grant funding from MDCH for the WIC and Breastfeeding 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 Breastfeeding Program internal controls and financial reporting, and to determine the MDCH shares of cost. 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, WIC, and Breastfeeding Programs.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program, WIC Program, and 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 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 Montcalm County Single Audit report for any Family Planning Program, WIC Program, or Breastfeeding Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program, WIC Program, and 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, WIC, and Breastfeeding Programs.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning, WIC, and Breastfeeding Programs. We noted one exception related to the Family Planning Program. We noted that billing rates were not sufficient to recover cost (Finding 1) as also noted in the FYE 2008 MDCH audit.

Finding

1. Billing Rates Not Sufficient to Recover Cost (Repeat)

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. This was also cited in the FYE 2008 MDCH audit.

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 \$511,484 we found the rates used would not recover \$126,866 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 effect is that an amount potentially recoverable from clients was paid from local revenues. We can estimate the effect was approximately \$6,175 for the year.

Recommendation

We again 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 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 was effective in reporting their Family Planning Program, WIC Program, and 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.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost 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 is \$123,030, under the WIC Program is \$685,014, and under the Breastfeeding Program is \$130,000 for the fiscal year ended September 30, 2011. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting Family Planning Program, WIC Program, or Breastfeeding Program funding.

Mid-Michigan District 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	\$685,014	\$685,014 ¹	\$0	\$685,014
Local and Other Funds	\$82,921	\$63,247	\$0	\$63,247
TOTAL REVENUES	\$767,935	\$748,261	\$0	\$748,261
EXPENDITURES:				
Salary and Wages	\$312,885	\$312,372	\$0	\$312,372
Fringe Benefits	\$116,565	\$119,565	\$0	\$119,565
Capital Expenditures	\$0	\$0	\$0	\$0
Contractual Costs	\$0	\$0	\$0	\$0
Supplies	\$12,200	\$7,438	\$0	\$7,438
Travel	\$19,000	\$13,439	\$0	\$13,439
Communication	\$3,600	\$934	\$0	\$934
Space Cost	\$58,000	\$59,503	\$0	\$59,503
Other Expense	\$500	\$736	\$0	\$736
Indirect Cost	\$126,387	\$115,008	\$0	\$115,008
Other Cost Distributions	\$118,798	\$119,266	\$0	\$119,266
TOTAL EXPENDITURES	\$767,935	\$748,261	\$0	\$748,261

¹ Actual MDCH payments provided on a performance reimbursement basis.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$130,000	\$130,000 ¹	\$0	\$130,000
Local and Other Funds	\$38,909	\$31,553	\$0	\$31,553
TOTAL REVENUES	\$168,909	\$161,553	\$0	\$161,553
EXPENDITURES:				
Salary and Wages	\$76,481	\$73,839	\$0	\$73,839
Fringe Benefits	\$19,281	\$17,169	\$0	\$17,169
Capital Expenditures	\$0	\$0	\$0	\$0
Contractual Costs	\$0	\$0	\$0	\$0
Supplies	\$5,350	\$4,323	\$0	\$4,323
Travel	\$3,500	\$3,357	\$0	\$3,357
Communication	\$1,800	\$1,146	\$0	\$1,146
Space Cost	\$5,000	\$12,333	\$0	\$12,333
Other Expense	\$500	\$25	\$0	\$25
Indirect Cost	\$28,183	\$24,232	\$0	\$24,232
Other Cost Distributions	\$28,814	\$25,129	\$0	\$25,129
TOTAL EXPENDITURES	\$168,909	\$161,553	\$0	\$161,553

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Mid-Michigan District Health Department
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	\$123,030	\$123,030 ¹	\$0	\$123,030
Fees 1 st & 2 nd Party	\$15,000	\$18,724	\$0	\$18,724
Fees & Collections – 3 rd Party	\$101,000	\$100,786	\$0	\$100,786
Fed Cost Based Reimbursement	\$30,000	\$0	\$0	\$0
Local Non-LPHO	\$12,000	\$25,012	\$0	\$25,012
MCH Funding	\$85,204	\$85,204	\$0	\$85,204
Local Funds	\$168,515	\$158,728	\$0	\$158,728
TOTAL REVENUES	\$534,749	\$511,484	\$0	\$511,484
EXPENDITURES:				
Salary & Wages	\$175,952	\$194,444	\$0	\$194,444
Fringe Benefits	\$76,452	\$69,799	\$0	\$69,799
Supplies	\$83,800	\$65,926	\$0	\$65,926
Travel	\$12,000	\$8,498	\$0	\$8,498
Communication	\$500	\$148	\$0	\$148
Space Cost	\$32,500	\$25,532	\$0	\$25,532
Other Expenses	\$3,300	\$3,805	\$0	\$3,805
Health Adm Distribution	\$52,437	\$51,640	\$0	\$51,640
MIS	\$23,526	\$21,329	\$0	\$21,329
Indirect Cost	\$74,282	\$70,363	\$0	\$70,363
TOTAL EXPENDITURES	\$534,749	\$511,484	\$1	\$511,484

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Mid-Michigan District Health Department
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>
40057	Initial Exam 12-17	88	\$120.00	\$10,560.00
40058	Initial Exam 18-39	191	\$120.00	\$22,920.00
40059	Initial Exam 40-64	15	\$140.00	\$2,100.00
40062	Established Exam 12-17	68	\$100.00	\$6,800.00
40063	Established Exam 18-39	581	\$100.00	\$58,100.00
40064	Established Exam 40-64	43	\$110.00	\$4,730.00
40066	Established Office Visit	640	\$40.00	\$25,600.00
40067	Established Revisit	174	\$30.00	\$5,220.00
40068	Nurse Visit Only	2265	\$25.00	\$56,625.00
40022	Iron	1	\$8.00	\$8.00
40023	Condyloma	52	\$20.00	\$1,040.00
40054	Rocephin Injection	3	\$15.00	\$45.00
40097	Menses Suppression	2	\$25.00	\$50.00
40094	Ceftriaxone Injection	8	\$15.00	\$120.00
40055	Diflucan	107	\$1.00	\$107.00
40008	Pregnancy Test	426	\$10.00	\$4,260.00
40011	RPR (VDLR)	2	\$20.00	\$40.00
40044	Thin Prep Pap	136	\$10.00	\$1,360.00
40004	Hemoglobin	261	\$10.00	\$2,610.00
40009	Microscopy	129	\$8.00	\$1,032.00
40005	Urinalysis	126	\$5.00	\$630.00
40007	Pap Smear	665	\$15.00	\$9,975.00
40001	Diaphragm Fitting	1	\$65.00	\$65.00
40002	IUD Insert	27	\$65.00	\$1,755.00
40095	IUD Removal	24	\$75.00	\$1,800.00
40082	Oral Contraceptives	6615	\$15.00	\$99,225.00
40025 & 47	Depo Provera	893	\$25.00	\$22,325.00
40018	Foam	62	\$10.00	\$620.00
40048	Female Condom	48	\$1.00	\$48.00
40017	Male Condom	28372	\$0.25	\$7,093.00
40024	Terazol Cream	15	\$20.00	\$300.00
40030	Nuva Ring	523	\$30.00	\$15,690.00
40053	IUS Mirena/Progesterone	20	\$400.00	\$8,000.00
40085	Cervical Cap	0	\$25.00	\$0.00
40028	Plan B	150	\$34.00	\$5,100.00
40029	Ortho Evra Patch	232	\$30.00	\$6,960.00
40019	Diaphragm	1	\$25.00	\$25.00
40027	IUD – Paraguard	7	\$240.00	\$1,680.00
40053	IUD – Mirena	0	\$400.00	\$0.00
				\$384,618.00
	Total Expenses			\$511,484.00
	(Shortfall)/Excess			(\$126,866.00)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Billing Rates Not Sufficient to Recover Cost (Repeat)**

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. This was also cited in the FYE 2008 MDCH audit.

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: Although the audit findings indicate that the billing rates are not sufficient to recover costs, all the direct costs associated with the program are covered by the billing rates used. The indirect is covered by the local funding received.

Corrective Action: Each year the Health Department's fees are reviewed and adjusted for all services as agency management and the Board of Health deem appropriate. While we agree it is important to ensure that fees cover the program costs, there are fluctuations on caseload and also on expenses. Therefore, the end result does not always fall into line with the initial plan during the budget process. We will assess revenue quarterly to determine if adjustments need to be made.

Anticipated Completion Date: July 1, 2012

MDCH Response: None

Comments and Recommendations

1. Space Cost Excluded From Indirect Overhead Allocations

The Health Department currently excludes various space costs associated with Administration, MIS and Community Health when calculating the allocations to the various affected programs. Although the impact would be minimal to the various programs, space cost is an allowable cost under OMB Circular A-87 and should be included in the allocation.

Recommendation

We recommend that the Health Department include all allowable costs when calculating the various overhead allocations.

Health Department Response

Space cost was accidentally excluded on the report generated for the overhead allocation. This has been corrected in FYE 2012.