

Audit Report

Ottawa County Health Department
Family Planning Program

October 1, 2009 – September 30, 2010



Office of Audit
Quality Assurance and Review
June 2012



RICK SNYDER
GOVERNOR

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

OLGA DAZZO
DIRECTOR

June 22, 2012

Ms. Lisa Stefanovsky, Health Officer
Ottawa County Health Department
12251 James Street, Suite 200
Holland, MI 48424

Dear Ms. Stefanovsky,

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Ottawa County 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; Cost vs. Amount Billed for Supplies and Services Schedule; 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, and the Office of Audit's response to those comments where necessary. **Please note the comment added to the Finding #1 Corrective Action Plan on Page 7. More timely action is needed to correct the billing rates finding.**

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
Steve Utter, Financial Analyst, Division of Family and Community Health

TABLE OF CONTENTS

	Page
Description of Agency	1
Funding Methodology.....	1
Purpose and Objectives.....	1
Scope and Methodology	2
<u>Conclusions, Findings, and Recommendations</u>	
<u>Internal Controls</u>	2
1. Billing Rates Not Sufficient to Recover Cost.....	2
<u>Financial Reporting</u>	3
2. Longevity Payments Misclassified As Fringe Benefits	4
3. Allowable Fixed Space Cost Miscalculated	4
<u>MDCH Share of Costs and Balance Due</u>	4
Statement of MDCH Grant Program Revenues and Expenditures.....	5
Costs vs. Amounts Billed for Services and Supplies Schedule	6
Corrective Action Plans	7

DESCRIPTION OF AGENCY

The Ottawa County Health Department (Health Department) is governed under the Public Health Code, Act 368 of 1978. The Health Department is a component unit of Ottawa County, which is the reporting entity, and the administrative office is located in Holland, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Ottawa County. The Health Department provides community health program services to the residents Ottawa County. These service programs include: Food Service Sanitation, Communicable Disease Control, Sexually Transmitted Disease Control, Medicaid Outreach, Immunization, Tobacco Reduction, Family Planning, Bioterrorism Preparedness, Vision Screening, Hearing Screening, On-Site Sewage, Drinking Water, and Maternal Infant Health.

FUNDING METHODOLOGY

The Health Department services are funded from local appropriations, fees and collections, and grant programs. The Michigan Department of Community Health (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, and Local 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 on 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 costs 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 the 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 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 a repeat exception with billing rates (Finding 1).

Finding

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

The Health Department used billing rates for family planning services and supplies that 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 noted 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 cost of \$1,239,848 we found the rates used would not recover \$255,005 of the cost (see Schedule of Costs vs. Amounts Billed for Services and Supplies).

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 recoverable from all clients was \$52,744 and billing rates were 20.6% below cost, we can estimate the effect was approximately \$13,657 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 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, two exceptions were noted with classifying longevity payments (Finding 2) and space cost (Finding 3).

Finding

2. Longevity Payments Misclassified As Fringe Benefits

The Health Department classified the longevity payments of \$3,675 on their FSR as fringe benefits rather than properly including them in salaries and wages.

Longevity payments are considered taxable income to the employee, according to generally accepted accounting principles (GAAP). Accordingly, longevity payments must be included as salaries and wages on the FSR.

Recommendation

We recommend that the Health Department classify any employee taxable payments as salaries and wages on the FSR.

Finding

3. Allowable Fixed Space Cost Miscalculated

The Health Department miscalculated the allowable portion of fixed space cost resulting in an overstatement of space cost by \$2,743 on the FSR.

The Health Department is charged space cost which includes both fixed and variable costs by the county. A portion of the fixed costs includes unallowable fees for fully depreciated buildings. The Health Department is aware of the unallowable costs and excludes that amount from the space cost; however, the amount to be excluded had been miscalculated which result in the Family Planning Program being overcharged by \$2,743.

Recommendation

We recommend that the Health Department adopt procedures to ensure the unallowable portion of the space cost is properly calculated to ensure the proper amount is excluded from reported expenditures.

MDCH SHARE OF COSTS AND BALANCE DUE

Objective 3: To determine the MDCH share of costs 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 \$201,517. 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 grant program funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$201,517	\$201,517 ¹	\$0	\$201,517
Fees 1 st & 2 nd Party	\$72,000	\$52,744	\$0	\$52,744
Fees & Collections - 3 rd Party	\$268,568	\$208,338	\$0	\$208,338
Local MCH	\$37,133	\$37,133	\$0	\$37,133
Local Funding	\$809,134	\$742,959	(\$2,743)	\$740,216
TOTAL REVENUES	\$1,388,352	\$1,242,691	(\$2,743)	\$1,239,948
EXPENDITURES:				
Salary & Wages	\$395,913	\$382,524	\$3,675 ²	\$386,199
Fringe Benefits	\$172,092	\$115,531	(\$3,675) ²	\$111,856
Supplies	\$164,300	\$159,189	\$0	\$159,189
Travel	\$8,060	\$6,207	\$0	\$6,207
Communications	\$11,392	\$13,668	\$0	\$13,668
Space Cost	\$57,051	\$45,494	(\$2,743) ³	\$42,751
Other Expense	\$30,445	\$25,172	\$0	\$25,172
Indirect Charges	\$200,466	\$184,402	\$0	\$184,402
Support Staff	\$348,633	\$310,504	\$0	\$310,504
TOTAL EXPENDITURES	\$1,388,352	\$1,242,691	(\$2,743)	\$1,239,948

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Reclassification of longevity payment from Fringe Benefits to Salary & Wages (Finding 2).

³ Miscalculation of fixed space cost (Finding 3).

**Ottawa County Health Department
Family Planning
Costs 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>
99211 overn	Office Visit 1 & 2 New & Est	3990	\$30.00	\$119,700.00
	Office Visit 3 New & Est	692	\$50.00	\$34,600.00
99394	Office Visit Est 12-17	62	\$130.00	\$8,060.00
99395	Office Visit Est 18-39	1086	\$130.00	\$141,180.00
99396	Office Visit Est 40-64	59	\$140.00	\$8,260.00
99384	Office Visit New 12-17	102	\$150.00	\$15,300.00
99385	Office Visit New 18-39	456	\$150.00	\$68,400.00
99386	Office Visit New 40-64	21	\$170.00	\$3,570.00
	Medical Revisit	312	\$50.00	\$15,600.00
	STD Office Visit	0	\$50.00	\$0.00
81025	Urine Preg Test	330	\$10.00	\$3,300.00
85018	Chlamydia	944	\$37.00	\$34,928.00
87210	Wet Mount	77	\$10.00	\$770.00
	Hemoglobin	58	\$10.00	\$580.00
	Urinalysis	7	\$10.00	\$70.00
	Pap Smear	1614	\$35.00	\$56,490.00
4471	Fluconazole	95	\$15.00	\$1,425.00
4540	Cipro	0	\$25.00	\$0.00
4472	Sulfa	0	\$15.00	\$0.00
OC-XXXX	Oral Contraceptives	15834	\$20.00	\$316,680.00
J1055	Depo	1592	\$40.00	\$63,680.00
58300	Insertion IUD	26	\$120.00	\$3,120.00
58301	Removal IUD	28	\$100.00	\$2,800.00
J7300	IUD Paragard	8	\$250.00	\$2,000.00
J7302	IUD Mirena	19	\$375.00	\$7,125.00
J7303	Nuva Ring	1063	\$40.00	\$42,520.00
S4993	Plan B	122	\$25.00	\$3,050.00
	Pills by Mail	250	\$5.00	\$1,250.00
	Foam	26	\$15.00	\$390.00
A4268	Patch	749	\$40.00	\$29,960.00
A4267	Diaphragm	1	\$35.00	\$35.00
				\$984,843.00
	Total Expenses			\$1,239,848.00
	(Shortfall)/Excess			(\$255,005.00)

Corrective Action Plan

Finding Number: 1

Page Reference: 2

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

The Health Department used billing rates for family planning services and supplies that 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 noted in the FYE 2008 MDCH audit.

Recommendation: Increase the billing rates to an amount that is sufficient to recover the reasonable cost of services.

Comments: Following the last audit, we completed a cost study and the fees were raised in July 2010. Our current policy is to do a cost study of the fees every three years so our next cost study and fee increase is slated for July 2013.

Corrective Action: In 2013 a cost study will be completed based on final program costs and services for FYE 9/30/2012.

**Anticipated
Completion Date:** 7/1/2013

MDCH Response: While the current policy is to do a cost study of the fees every three years and the next is not slated until July 2013, the noted violation of the Code of Federal Regulations warrants timelier action.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Longevity Payments Misclassified as Fringe Benefits

The Health Department classified the longevity payments of \$3,675 on their FSR as fringe benefits rather than properly including them in salaries and wages.

Recommendation: Classify all employees' taxable income as salaries and wages on the FSR.

Comments: The longevity expense line item on the general ledger was grouped with the fringe benefits and had thus been classified.

Corrective Action: The longevity expense, as well as the insurance opt out amounts, have been reclassified with the salary category for reporting on the FSR. This change was made with the next FSR following the audit.

**Anticipated
Completion Date:** December 31, 2011

MDCH Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Allowable Fixed Space Cost Miscalculated

The Health Department miscalculated the allowable portion of fixed space cost resulting in an overstatement of space cost by \$2,743 on the FSR.

Recommendation: Adopt procedures to ensure the unallowable portion of the space cost is properly calculated to ensure the proper amount is excluded from reported expenditures.

Comments: The Health Department agrees with the calculations of MDCH.

Corrective Action: The procedure for calculating and excluding the disallowed rent has been corrected.

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

MDCH Response: None