

Audit Report

Tuscola County Health Department
Family Planning and WIC Programs

October 1, 2010 – September 30, 2011



Office of Audit
Quality Assurance and Review
April 2012



RICK SNYDER
GOVERNOR

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

OLGA DAZZO
DIRECTOR

April 2, 2012

Gretchen Tenbusch, R.N., M.S.A., Health Officer
Tuscola County Health Department
1309 Cleaver Road
Caro, MI 48723-8114

Dear Ms. Tenbusch:

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

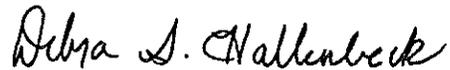
Due to the Finding #2 adjustments, MDCH's obligation for the WIC program declined \$2,991 and these funds are due back to MDCH. A check payable to the State of Michigan for \$2,991 should be sent to the following address by **May 2, 2012**:

Lisa Halverson, Manager
Revenue Operations Section
Accounting Division
Michigan Department of Community Health
P.O. Box 30437
Lansing, MI 48909

Gretchen Tenbusch, R.N., M.S.A., Health Officer
Tuscola County Health Department
April 2, 2012
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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
Lisa Halverson, Manager, Revenue Operations Section
Michael 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 Tuscola 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 Tuscola County, which is the reporting entity, and the administrative office is located in Caro, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of two commissioners of Tuscola County and three community members. The Health Department provides community health program services to the residents of Tuscola 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, 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 Program was funded by MDCH Grant Funds, and Other Local Funds. Grant funding from MDCH for the WIC Program 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 and WIC Program internal controls and financial reporting, and to determine the MDCH shares of Family Planning Program and WIC 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 and WIC Programs.
2. To assess the Health Department's effectiveness in reporting their Family Planning Program and WIC 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 and WIC Programs 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 or WIC Program concerns.
- Completed an internal control questionnaire.
- Reconciled the Family Planning Program and WIC 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 and WIC Programs.

Conclusion: The Health Department was effective in establishing and implementing internal controls over the Family Planning and WIC Programs. 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. Family Planning 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 \$240,945 we found the rates used would not recover \$33,410 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 a small amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$10,782, and billing rates were about 13.87% under cost, we can estimate the effect was approximately \$1,736 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 WIC 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 and WIC 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 advertising expense distributions (Finding 2) and indirect cost allocations (Finding 3).

Finding

2. Advertising for Numerous Programs Expensed Entirely to WIC

The Health Department expensed advertising costs that were applicable to numerous programs of the Health Department entirely to the WIC Program.

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). Per 2 CFR Part 225 (Office of Management and Budget Circular A-87), Appendix A, General Principles for Determining Allowable Costs, Section C. 3. Allocable Costs, "*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.*"

The Health Department expensed advertising costs from Caro Publishing in the amount of \$14,219. Of that amount, \$8,919 relates to multiple runs of an advertisement that promotes all of the Health Department's programs including WIC. At least 50% of this advertisement promotes the Health Department's other programs while the other 50% promotes the WIC Program. The Health Department expensed the entire cost of these advertisements to the WIC Program.

Adjustments to remove half (\$4,460) of these costs from the WIC Program are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures – WIC Program.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure costs are appropriately allocated to programs in accordance with relative benefits received.

Finding

3. Indirect Cost Allocation Overstated

The Health Department overstated their indirect cost pool by not deducting the full amount of applicable credits.

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 the net of all applicable credits (Appendix A, Section C. 1. i.). According to Appendix A, Section C. 4.:

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.

The Health Department's Health Officer splits her time between Tuscola and Huron Counties. Tuscola pays the salary and expenses and bills Huron County for 50%. Total costs for the audit period were \$155,545 and \$77,773 was Huron County's portion. However, in the indirect cost calculation only \$70,316 was used as the applicable credit. When the full amount of the applicable credit is included in the calculation, the Family Planning Program's indirect cost allocation is \$722 lower and the WIC Program's indirect cost allocation is \$817 lower.

Adjustments are shown on the attached Statements of MDCH Grant Program Revenues and Expenditures. For the Family Planning Program, this finding does not affect funding since local funds were used to fund more than the amount of the adjustment. For the WIC Program, this finding does not affect funding, since Indirect Cost had been understated by more than the amount of the adjustment due to E-Grams reporting limitations.

Recommendation

We recommend that the Health Department adopt policies and procedures to ensure the indirect cost calculation properly accounts for all applicable credits.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the Family Planning and WIC Programs 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 \$81,852 and under the WIC Program is \$260,272. The attached Statements of MDCH Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made adjustments affecting WIC Program funding by \$2,991.

**Tuscola County 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	\$263,263	\$263,263 ¹	(\$2,991)	\$260,272
Local Funds Other	\$100	\$100	(\$100)	\$0
TOTAL REVENUES	\$263,363	\$263,363	(\$3,091)	\$260,272
EXPENDITURES:				
Salary and Wages	\$125,960	\$126,002	\$0	\$126,002
Fringe Benefits	\$46,267	\$44,190	\$0	\$44,190
Supplies	\$13,458	\$14,629	\$0	\$14,629
Travel	\$1,141	\$695	\$0	\$695
Communications	\$720	\$661	\$0	\$661
Central Service Cost	\$894	\$1,025	\$0	\$1,025
Space Cost	\$8,331	\$8,365	\$0	\$8,365
Other Expense	\$15,091	\$20,612	(\$4,460) ²	\$16,152
Indirect Cost	\$35,756	\$30,614	\$2,186 ³	\$31,983
			(\$817) ⁴	
Nursing Administration	\$15,745	\$16,570		\$16,570
TOTAL EXPENDITURES	\$263,363	\$263,363	(\$3,091)	\$260,272

- ¹ Actual MDCH payments provided on a performance reimbursement basis
- ² Unallowable Advertising Costs (Finding 2)
- ³ Increase cost to actual based on general ledger
- ⁴ Overstated indirect costs (Finding 3)

**Tuscola County 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	\$81,852	\$81,852 ¹	\$0	\$81,852
Fees 1 st & 2 nd Party	\$7,662	\$7,105	\$3,677 ^{2,3}	\$10,782
Fees & Collections – 3 rd Party	\$75,463	\$71,736	\$0	\$71,736
Fed Cost Base Reimbursement	\$18,522	\$18,522	\$0	\$18,522
MCH Funding	\$41,867	\$41,867	\$0	\$41,867
Local Funds	\$27,366	\$20,585	(\$4,399) ^{2,3,4}	\$16,186
TOTAL REVENUES	\$252,732	\$241,667	(\$722)	\$240,945
EXPENDITURES:				
Salary & Wages	\$106,210	\$104,393	\$0	\$104,393
Fringe Benefits	\$47,131	\$45,945	\$0	\$45,945
Supplies	\$27,511	\$24,849	\$0	\$24,849
Travel	\$1,130	\$470	\$0	\$470
Communications	\$1,120	\$1,123	\$0	\$1,123
County Central Services	\$810	\$902	\$0	\$902
Space Cost	\$8,809	\$8,817	\$0	\$8,817
Other Expense	\$15,588	\$13,934	\$0	\$13,934
Admin Overhead	\$31,834	\$28,974	(\$722) ⁴	\$28,252
Nursing Allocation	\$12,589	\$12,260	\$0	\$12,260
TOTAL EXPENDITURES	\$252,732	\$241,667	(\$722)	\$240,945

- ¹ Actual MDCH payments provided on a performance reimbursement basis.
- ² Due to E-GRAM restrictions, \$2,058 of 1st Party Fees were excluded from the FSR.
- ³ The Agency recorded donations of \$1,619 as Local Funding rather than 2nd Party Fees.
- ⁴ Overstated indirect costs (Finding 3).

**Tuscola County Health Department
Family Planning
Cost vs Amount 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>
99384	Initial Exam 12-17	63	\$120.00	\$7,560.00
99385	Initial Exam 18-39	118	\$120.00	\$14,156.00
99394	Established Exam 12-17	25	\$90.00	\$2,250.00
99395	Established Exam 18-39	387	\$95.00	\$36,765.00
99396	Established Exam 40-64	4	\$100.00	\$400.00
99201	New Visit – Problem Focused	2	\$35.00	\$70.00
99211	New Visit – Expanded Focus	980	\$20.00	\$19,600.00
99212	New Visit – Detailed – Low Complexity	48	\$35.00	\$1,680.00
81025	Pregnancy Test	222	\$15.00	\$3,330.00
85018QW	Hematology	5	\$10.00	\$50.00
87850	GC Probetec High Risk	3	\$10.00	\$30.00
86631	Chlamydia	208	\$32.00	\$6,656.00
87905	Wet Mount	216	\$15.00	\$3,240.00
Z8005	Terazol	1	\$15.00	\$15.00
Z8090	Flagyl 4 tabs	1	\$8.00	\$8.00
Z8091	Flagyl 14 tabs	11	\$12.00	\$132.00
Z8060	Diflucan	3	\$5.00	\$15.00
A4266	Oral Contraceptives	3815	\$18.00	\$68,670.00
	Ortho Evra Patch	55	\$25.00	\$1,375.00
J1055	Depo Provera	521	\$45.00	\$23,445.00
A4267	Male Condoms	5197	\$0.35	\$1,818.95
A4269	Jelly	4	\$10.00	\$40.00
J7303	Nuva Ring	395	\$40.00	\$15,800.00
Z8506	Plan B	5	\$15.00	\$75.00
S4989	IUD	1	\$290.00	\$290.00
58300	IUD Insertion	1	\$60.00	\$60.00
				\$207,534.95
	Total Expenses			\$240,945.00
	(Shortfall)/Excess			(\$33,410.05)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: Family Planning 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: Agree

Corrective Action: Billing rates will be reviewed and adjusted annually, using the most recent available data compiled from the MDCH Family Planning Cost Study, compared to local GYN providers, and Family Planning Title X providers in surrounding counties.

Anticipated Completion Date: November 30, 2012

MDCH Response: None.

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: Advertising for Numerous Programs Expensed Entirely to WIC

The Health Department expensed advertising costs that were applicable to numerous programs of the Health Department entirely to the WIC Program.

Recommendation: Adopt policies and procedures to ensure costs are appropriately allocated to programs in accordance with relative benefits received.

Comments: Agree

Corrective Action: The Nursing Administrator will design advertisements that inform Tuscola County residents of WIC services available, with details applicable to the WIC program only. Any reference to other programs the Health Department offers will be in a simple statement asking residents to visit the website for details. A copy of the ad format will be attached to the purchase order and forwarded to the Fiscal Manager, who will make sure the invoice is appropriately charged to the WIC program.

Anticipated

Completion Date: March 21, 2012

MDCH Response: None.

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Indirect Cost Allocation Overstated

The Health Department overstated their indirect cost pool by not deducting the full amount of applicable credits.

Recommendation: Adopt policies and procedures to ensure the indirect cost calculation properly accounts for all applicable credits.

Comments: Agree

Corrective Action: The Fiscal Manager will make adjustments to the structure of the “Indirect Rate Computation” form, to automatically calculate the portion of Health Officer expense that pertains to Huron County Health Department, at 50%; regardless of when payment is actually received.

Anticipated Completion Date: March 21, 2012

MDCH Response: None.