

Audit Report

Western Upper Peninsula District Health Department
WIC, WIC Breastfeeding and Family Planning Programs

October 1, 2012 – September 30, 2013



Office of Audit
Quality Assurance and Review
October 2014



RICK SNYDER
GOVERNOR

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

NICK LYON
DIRECTOR

October 28, 2014

Cathryn A. Beer, MPA, CPA, CGMA, Health Officer/Administrator
Western Upper Peninsula District Health Department
540 Depot Street
Hancock, Michigan 49930

Dear Ms. Beer:

Enclosed is our final report from the Michigan Department of Community Health (MDCH) audit of the Western Upper Peninsula District Health Department WIC, WIC Breastfeeding and Family Planning Programs for the period October 1, 2012 through September 30, 2013.

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 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
Jeanette Lightning, Manager, Reproductive Health Unit
Pam Myers, Director, 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 Western Upper Peninsula 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 Houghton County, which is the reporting entity, and the administrative office is located in Hancock, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Houghton, Baraga, Ontonagon, Keweenaw and Gogebic Counties. The Health Department provides community health program services to the residents of Houghton, Baraga, Ontonagon, Keweenaw and Gogebic Counties. These service programs include: Food Service Sanitation, On-Site Sewage, Drinking Water, Vision Screening, Hearing Screening, Immunizations, Breast and Cervical Cancer Control Program, Women Infant and Children (WIC) Supplemental Food Program, Bioterrorism Preparedness, Tobacco Reduction, Sexually Transmitted Disease Control, Communicable Disease Control, 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 93.994, 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 and WIC 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 WIC 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 WIC Breastfeeding Programs.
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, WIC, and WIC Breastfeeding 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, 2012 to September 30, 2013. 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.
- Reviewed the completed 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, WIC, and WIC Breastfeeding Programs.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the Family Planning, WIC, and WIC Breastfeeding Programs. We noted one exception related to the Family Planning Program. We noted that billing rates were not sufficient to recover cost as also noted in the FYE 2010 and there was no cost analysis in establishing the fee schedule (Finding #1).

Finding

1. Billing Rates Not Sufficient to Recover Cost (Repeat) and Lack of Cost Analysis

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 2010 MDCH audit. In addition, there was no cost analysis to support the current fee 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....

The MDCH Title X Family Planning Standards and Guidelines, Section 6.3.1 Charges, Billing, and Collections states the following with respect to the development of a fee schedule:

Delegate agencies must develop a process which utilizes a recent cost analysis of all services provided by the project to develop a fee schedule designed to recover the reasonable costs of providing services. To be recent, a cost analysis should be conducted within three years, or within one year following major changes to a program.

For our test to determine if the rates could recover the cost of providing services, we multiplied the billing rate for each service and supply times the number of times each service and 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 \$337,786 we found the rates used would not recover \$139,657 of the cost (see Cost vs. Amounts Billed for Supplies and Services Schedule).

The estimated effect is that an amount potentially recoverable from clients was paid from local revenues. Because the amount recovered from all clients was \$9,901, and billing rates were 41.34% below cost, we can estimate the effect was approximately \$6,979 for the year.

This issue was cited in the previous FYE 2010 MDCH audit. While fees for services and some supplies were adjusted upward, total costs increased 38% over FYE 2010 total costs, and there was also a reduction in the number of services and supplies provided. Consequently, fees were further below cost, and the impact on local funds was greater than that calculated for FYE 2010.

Recommendation

We recommend that the Health Department take action to ensure billing rates are designed to recover the reasonable cost of services. If the Health Department chooses to set fees lower than what is required to recover actual costs, the Health Department must adopt a policy designating the percentage of cost the fee is to represent in accordance with Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines.

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 was generally effective 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. However, we noted an exception with the Family Planning Program reporting fees and collections on an accrued basis (Finding #2).

Finding

2. Fees and Collections Not Reported on a Cash Basis

The Health Department reported 1st and 3rd Party Fees and Collections for the Family Planning Program on an accrual basis on the Financial Status Report rather than cash basis as required.

The MDCH Financial Status Report Form Preparation Instructions, I Introduction states:

The Financial Status Report is to be prepared reporting expenditures on a cash or accrual basis and revenue on an accrual basis, with the exception of fees which should be reported on a cash basis as received.

Adjustments are shown on the attached Statement of MDCH Grant Program Revenues and Expenditures.

Recommendation

We recommend the Health Department comply with the most recent MDCH Financial Status Report Form Preparation Instructions and report fees on a cash basis.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the Family Planning, WIC, and WIC Breastfeeding 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 is \$117,506, under the WIC Program is \$269,673, and under the WIC Breastfeeding Program is \$41,147 for fiscal year ended September 30, 2013. 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.

**Western UP Health Department
WIC Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$269,673	\$269,673 ¹	\$0	\$269,673
Local Funds	\$6,194	\$13,387	\$0	\$13,387
TOTAL REVENUES	\$275,867	\$283,060	\$0	\$283,060
EXPENDITURES:				
Salary & Wages	\$128,950	\$127,899	\$0	\$127,899
Fringe Benefits	\$61,896	\$63,362	\$0	\$63,362
Supplies	\$4,500	\$4,339	\$0	\$4,339
Travel	\$4,500	\$3,665	\$0	\$3,665
Communications	\$1,750	\$1,605	\$0	\$1,605
Space Cost	\$13,200	\$17,105	\$0	\$17,105
Other Expense	\$0	\$0	\$0	\$0
Admin Overhead	\$61,071	\$65,085	\$0	\$65,085
TOTAL EXPENDITURES	\$275,867	\$283,060	\$0	\$283,060

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Western UP Health Department
WIC Breastfeeding Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$41,147	\$41,147 ¹	\$0	\$41,147
Local Funds	\$3,926	\$2,714	\$0	\$2,714
TOTAL REVENUES	\$45,073	\$43,861	\$0	\$43,861
EXPENDITURES:				
Salary & Wages	\$25,252	\$25,830	\$0	\$25,830
Fringe Benefits	\$5,303	\$5,054	\$0	\$5,054
Supplies	\$50	\$34	\$0	\$34
Travel	\$3,090	\$2,538	\$0	\$2,538
Communications	\$0	\$0	\$0	\$0
Space Cost	\$1,600	\$0	\$0	\$0
Admin Overhead	\$9,778	\$10,405	\$0	\$10,405
TOTAL EXPENDITURES	\$45,073	\$43,861	\$0	\$43,861

¹ Actual MDCH payments provided on a performance reimbursement basis.

**Western UP Health Department
Family Planning Program
Statement of MDCH Grant Program Revenues and Expenditures
10/1/12 - 9/30/13**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$73,792	\$73,792 ¹	\$0	\$73,792
MCH Funding	\$43,714	\$43,714	\$0	\$43,714
Fees 1 st & 2 nd Party	\$12,000	\$8,810	\$1,091 ²	\$9,901
Fees & Collections – 3 rd Party	\$49,000	\$47,932	(\$1,614) ²	\$46,318
Federal or State (Non MDCH)	\$10,625	\$10,625	\$0	\$10,625
Fed Cost Based Reimbursement	\$79,500	\$74,200	\$0	\$74,200
Local Funds	\$79,623	\$78,713	\$523 ²	\$79,236
TOTAL REVENUES	\$348,254	\$337,786	\$0	\$337,786
EXPENDITURES:				
Salary & Wages	\$122,278	\$121,345	\$0	\$121,345
Fringe Benefits	\$63,585	\$60,113	\$0	\$60,113
Supplies	\$41,300	\$33,624	\$0	\$33,624
Travel	\$4,300	\$6,004	\$0	\$6,004
Communications	\$1,600	\$1,542	\$0	\$1,542
Space Cost	\$18,215	\$17,825	\$0	\$17,825
Other Expense	\$37,500	\$36,620	\$0	\$36,620
Admin Overhead	\$59,476	\$60,713	\$0	\$60,713
TOTAL EXPENDITURES	\$348,254	\$337,786	\$0	\$337,786

¹ Actual MDCH payments provided on a performance reimbursement basis.

² Fees and Collections not reported on a cash basis (Finding #2).

**Western UP Health Department
Family Planning
Costs vs. Amounts Billed for Supplies and Services Schedule
10/1/12 – 9/30/13**

<u>Description</u>	<u>Quantity</u>	<u>Fee</u>	<u>Total</u>
<u>Office Visits</u>			
Initial Visit 12-17 with pap	1	\$205.00	\$205.00
Initial Visit 18-39 with pap	51	\$205.00	\$10,455.00
Initial Visit 40-64 with pap	2	\$240.00	\$480.00
Initial Visit w/o pap	91	\$100.00	\$9,100.00
Annual Visit 12-17 with pap	2	\$195.00	\$390.00
Annual Visit 18-39 with pap	97	\$195.00	\$18,915.00
Annual Visit 40-64 with pap	2	\$195.00	\$390.00
Annual Visit w/o pap	231	\$100.00	\$23,100.00
Counseling Visit	122	\$30.00	\$3,660.00
Injection Visit	438	\$30.00	\$13,140.00
Medical Repap Visit	25	\$60.00	\$1,500.00
Medical Revisit – Problem	29	\$100.00	\$2,900.00
HPV Test Visit	0	\$100.00	\$0.00
STD Visit	66	\$100.00	\$6,600.00
Remove IUD	1	\$48.00	\$48.00
VF Check New patient	1	\$100.00	\$100.00
VF Check Established	6	\$60.00	\$360.00
<u>Lab</u>			
Chlamydia Immunoassay	176	\$38.54	\$6,783.04
Chlamydia Imm/Gonorrhea Culture	4	\$77.08	\$308.32
Hemoglobin Test	4	\$5.00	\$20.00
Vaginal Smear	36	\$10.00	\$360.00
Urinalysis Dipstick	4	\$10.00	\$40.00
Pregnancy Test	81	\$10.00	\$810.00
Venipuncture	11	\$25.00	\$275.00
Herpes Simplex Virus PCR	1	\$100.00	\$100.00
<u>Contraceptives</u>			
Oral Contraceptives	3209	\$20.00	\$64,180.00
Depo Provera	520	\$45.00	\$23,400.00
Nuva Ring	119	\$70.00	\$8,330.00
IUD Paragard	1	\$240.00	\$240.00
Emergency Contraceptive (Plan B)	70	\$25.00	\$1,750.00
<u>Pharmaceutical Supplies</u>			
Acyclovir 400 mg	1	\$10.00	\$10.00
Amoxicillin 500 mg	0	\$15.00	\$0.00
Bactrim DS	0	\$15.00	\$0.00
Fluconazole 150 mg	12	\$15.00	\$180.00
			\$198,129.36
Total Expenses			\$337,786.00
(Shortfall)/Excess			(\$139,656.64)

Corrective Action Plan

Finding Number: 1

Page Reference: 3

Finding: **Billing Rates Not Sufficient to Recover Cost (Repeat) and Lack of Cost Analysis**

The Health Department's billing rates for Family Planning Program 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. In addition, there was no cost analysis supporting the current fee schedule.

Recommendation: Comply with the Title X regulations by ensuring billing rates are designed to recover the reasonable cost of services. If the Health Department chooses to set fees lower than what is required to recover actual costs, adopt a policy designating the percentage of the cost the fee is to represent in accordance with Section 6.3.1 of the MDCH Title X Family Planning Standards and Guidelines.

Comments: The Health Department agrees with this finding.

Corrective Action: The Health Department installed a new electronic medical records system later than planned. Billing and activity tracking began on the new system in January 2014. The Health Department plan is to utilize data from this system to develop an accurate cost analysis and adjust fees accordingly.

Anticipated Completion Date: January 2015

MDCH Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 4

Finding: **Fees and Collections Not Reported on a Cash Basis**

The Health Department reported 1st and 3rd Party Fees and Collections for the Family Planning Program on the accrual basis on the Financial Status Report rather than cash basis as required.

Recommendation: Comply with the most recent MDCH Financial Status Report Form Preparation Instructions and report fees on a cash basis.

Comments: The Health Department agrees with this finding.

Corrective Action: The Financial Status Report will reflect 1st and 3rd party fees and collections as required beginning immediately.

**Anticipated
Completion Date:** September 30, 2014

MDCH Response: None