

Audit Report

Grand Traverse County Health Department
WIC & Family Planning Programs

October 1, 2013 – September 30, 2014



Office of Audit
Quality Assurance and Review
October 2015



STATE OF MICHIGAN
DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

RICK SNYDER
GOVERNOR

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DIRECTOR

October 13, 2015

Wendy Trute, MPH, CPHA, Health Officer/Director
Grand Traverse County Health Department
2600 LaFranier Road, Suite A
Traverse City, MI 49686

Dear Ms. Trute:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Grand Traverse County Health Department WIC and Family Planning Programs for the period October 1, 2013 through September 30, 2014.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; Statements of 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.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

Debra S. Hallenbeck, Manager
Quality Assurance and Review
Bureau of Audit, Reimbursement and Quality Assurance

Enclosure

cc: Stan Bien, Director, WIC Division
Paulette Dobyne Dunbar, Manager, Division of Family and Community Health
Deanna Charest, Manager, Reproductive and Preconception Health Unit
Pam Myers, Director, Bureau of Audit, Reimbursement and Quality Assurance
Keith Rubley, Auditor, Quality Assurance and Review
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DESCRIPTION OF AGENCY

The Grand Traverse 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 Grand Traverse County, which is the reporting entity, and the administrative office is located in Traverse City, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Grand Traverse County. The Health Department provides community health program services to the residents of Grand Traverse County.

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). MDCH provided 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 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.

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 Family Planning Program is federal funding under federal catalog numbers 93.217 and 93.994, and is subject to performance requirements. That is, reimbursement from MDCH was based upon the understanding that a certain level of performance (measured in caseload established by MDCH) had to 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 WIC and Family Planning Programs internal controls and financial reporting, and to determine the MDCH shares of WIC Program and 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 WIC and Family Planning Programs.
2. To assess the Health Department's effectiveness in reporting their WIC Program and Family Planning Program financial activity to MDCH in accordance with applicable MDCH requirements and agreements, applicable federal standards, and generally accepted accounting principles.
3. To determine the MDCH shares of cost for the WIC and Family Planning 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, 2013 to September 30, 2014. Our review procedures included the following:

- Reviewed the most recent Health Department Single Audit report for any WIC Program or Family Planning Program concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the WIC and Family Planning Programs 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/lease costs for proper reporting and compliance with Federal requirements.
- Reviewed WIC equipment inventory and general Health Department equipment 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 WIC and Family Planning Programs.

Conclusion: The Health Department was generally effective in establishing and implementing internal controls over the WIC and Family Planning Programs. However, we noted exceptions related to billings for Family Planning Program services (Finding 1) and the lack of an administration approved policy for setting Family Planning Program fees lower than cost (Finding 2).

Finding

1. Improper Billings to Third Parties

The Health Department did not bill Medicaid at the total amount of charges.

The 2013 Michigan Title X Family Planning Program Standards and Guidelines Manual, Section 6.3.1 "Charges, Billing, and Collections" Paragraph I. states, "Bills to third parties must show total charges without applying any discount."

Bills to Medicaid are based on the amount that Medicaid is expected to reimburse the Health Department.

Recommendation

We recommend that the Health Department comply with the Michigan Title X Family Planning Program Standards and Guidelines manual and bill all third parties, including Medicaid, for the total amount of charges.

Finding

2. No Administration Approved Policy for Setting Family Planning Program Fees Lower Than Cost

The Health Department set their Family Planning Program fees below the cost with no administration approved policy designating the percentage of the cost the fee schedule is to represent.

The 2013 Michigan Title X Family Planning Program Standards and Guidelines Manual, Section 6.3.1 “Charges, Billing and Collections” Paragraph B. states, “If the agency chooses to set fees lower than what is required to recover actual costs, the agency **must** have an administration approved policy in place designating the percentage of the cost the fee is to represent.”

Recommendation

We recommend that the Health Department comply with the Michigan Title X Family Planning Program Standards and Guidelines Manual and implement an administration approved policy for designating the percentage of the cost the fee is to represent if the Health Department chooses to set fees lower than what is required to recover actual costs.

FINANCIAL REPORTING

Objective 2: To assess the Health Department’s effectiveness in reporting their WIC Program and 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 WIC Program and 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, we found three exceptions related to the following: an excess internal service fund (Finding 3), leave time allocated based on budgeted FTEs (Finding 4), and termination costs improperly reported (Finding 5).

Finding

3. Excess Internal Service Fund

Grand Traverse County's Information Technology Internal Service Fund had a working capital reserve that exceeded the allowable amount as of December 31, 2013 according to OMB Circular A-87.

Grand Traverse County charges most Grand Traverse County Departments (including the Health Department) for information technology support. The County places the funds received from the County Departments in the Information Technology Internal Services Fund. Based on the December 31, 2013 financial statements and the report issued by MGT of America, the County had accumulated an excess balance in the fund.

OMB Circular A-87 (located at 2 CFR Part 225), Appendix C, Sections G. 3. and G. 4. require comparisons of the charges to the actual allowable costs, and adjustments by one of several methods. Additionally, OMB Circular A-87, Appendix C, Section G. 2., allows for the establishment and maintenance of a reasonable level of working capital reserve for internal service funds. According to OMB Circular A-87, a working capital reserve as part of retained earnings of up to 60 days cash expenses for normal operating purposes is considered reasonable.

According to Grand Traverse Internal Services Fund Summary for the Year Ended December 31, 2013, operating expenses were \$1,428,486 for the Information Technology Internal Services Fund which equates to a 60-day requirement of \$238,081. However, as of December 31, 2013, Grand Traverse County's Information Technology Internal Services Fund had a working capital reserve of \$298,885. Accordingly, the working capital reserve exceeded the allowable amount by \$60,804, and reductions are needed to achieve compliance with OMB Circular A-87.

Recommendation

We recommend that Grand Traverse County devise a plan to ensure the Information Technology Internal Service Fund working capital reserves is reduced to the allowable limit (60 days cash expenses) by FYE 2017 by either cash refunds or adjustments to future billing rates/allocations.

Finding

4. Leave Time Allocation Based on Budgeted FTEs

The Health Department allocated employee leave time to the WIC and Family Planning Programs based on budgeted FTEs rather than actual time worked in the 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 allocated in accordance with relative benefits received,

and must conform to any limitations or exclusions set forth in OMB Circular A-87. According to OMB Circular A-87, Appendix B, Section 8. d. (2):

The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the government unit.

The Health Department allocates leave time for each employee based on a budgeted full time equivalent (FTE) percentage. Leave hours are multiplied by the budgeted FTE percentage to allocate costs to each Health Department program.

In order for the Health Department to ensure that leave time is allocated equitably to all benefitting programs, they should analyze and update FTE percentages at least once every quarter based on actual time worked.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure the leave time allocation percentages are updated at least quarterly based on actual time worked so leave time is equitably allocated to all benefitting programs.

Finding

5. Termination Costs Improperly Reported

The Health Department improperly reported termination costs as a direct expense on the FSRs.

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). According to OMB Circular A-87, Appendix B, Section 8. d. (3):

Payments for unused leave when an employee retires or terminates employment are allowable in the year of payment provided they are allocated as a general administrative expense to all activities of the governmental unit or component.

The Health Department expenses payments for unused vacation and personal leave when an employee terminates employment directly to the employee's "home" programs. However, these payments should be treated as a general administrative expense and allocated to all activities of the Health Department.

No adjustment will be made on the attached Statements of Grant Program Revenues and Expenditures because an accurate calculation could not be easily determined given the multiple programs likely receiving direct charges of termination costs, and the likelihood of no financial impact given the level of local funding.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure termination costs are allocated as a general administrative expense to all activities of the Health Department.

MDCH SHARES OF COST AND BALANCE DUE

Objective 3: To determine the MDCH shares of cost for the WIC and Family Planning Programs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from the Health Department.

Conclusion: The MDCH obligations under the WIC, WIC Breastfeeding and Family Planning Programs for fiscal year ended September 30, 2014, are \$397,492; \$47,771; and \$47,882; respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting grant program funding.

**Grand Traverse County Health Department
WIC Resident Services
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$397,492	\$397,492 ¹		\$397,492
Local Funds - Other	\$34,572	\$75,344		\$75,344
TOTAL REVENUES	\$432,064	\$472,836	\$0	\$472,836
EXPENDITURES:				
Salary & Wages	\$200,345	\$225,522		\$225,522
Fringe Benefits	\$101,587	\$110,526		\$110,526
Contractual	\$1,400	\$1,149		\$1,149
Supplies & Materials	\$7,050	\$6,037		\$6,037
Travel	\$1,950	\$1,148		\$1,148
Communication	\$5,100	\$3,195		\$3,195
County-City Central Services	\$19,320	\$22,530		\$22,530
Space Costs	\$30,000	\$29,339		\$29,339
Other	\$10,565	\$11,545		\$11,545
Indirect Costs	\$30,299	\$35,663		\$35,663
Other Costs Distributions	\$24,448	\$26,182		\$26,182
TOTAL EXPENDITURES	\$432,064	\$472,836	\$0	\$472,836

¹ Actual MDCH payments.

Grand Traverse County Health Department
WIC Breastfeeding
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$47,771	\$47,771 ¹		\$47,771
Local Funds - Other	\$853	\$192		\$192
TOTAL REVENUES	\$48,624	\$47,963	\$0	\$47,963
EXPENDITURES:				
Salary & Wages	\$26,735	\$26,838		\$26,838
Fringe Benefits	\$6,730	\$5,475		\$5,475
Supplies & Materials	\$600	\$1,932		\$1,932
Travel	\$600	\$268		\$268
Communication	\$800	\$603		\$603
County-City Central Services	\$2,141	\$2,161		\$2,161
Space Costs	\$3,450	\$3,281		\$3,281
Other	\$1,500	\$1,446		\$1,446
Indirect Costs	\$3,358	\$3,434		\$3,434
Other Costs Distributions	\$2,710	\$2,525		\$2,525
TOTAL EXPENDITURES	\$48,624	\$47,963	\$0	\$47,963

¹ Actual MDCH payments.

**Grand Traverse County Health Department
Family Planning
Statement of Grant Program Revenues and Expenditures
10/1/13 - 9/30/14**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$35,453	\$35,453	1	\$35,453
MDCH Grant	\$12,429	\$12,429	1	\$12,429
Fees and Collections - 1st and 2nd Party	\$9,500	\$9,406		\$9,406
Fees and Collections - 3rd Party	\$62,000	\$64,926		\$64,926
Federal Cost Based Reimbursement	\$137,000	\$136,569		\$136,569
Required Match - Local	\$6,667	\$6,667		\$6,667
Local Funds - Other - Pharmaceutical	\$12,571	\$15,277		\$15,277
Local Funds - Other	\$93,163	\$60,063		\$60,063
TOTAL REVENUES	\$368,783	\$340,790	\$0	\$340,790
EXPENDITURES:				
Salary & Wages	\$141,060	\$129,554		\$129,554
Fringe Benefits	\$72,054	\$56,777		\$56,777
Contractual	\$12,440	\$11,266		\$11,266
Supplies & Materials	\$10,000	\$13,929		\$13,929
Supplies & Materials - Pharmaceutical	\$25,000	27,706		\$27,706
Travel	\$850	\$998		\$998
Communication	\$1,950	\$1,600		\$1,600
County-City Central Services	\$13,637	\$12,472		\$12,472
Space Costs	\$36,000	\$35,753		\$35,753
Other	\$17,150	\$16,401		\$16,401
Indirect Costs	\$21,386	\$19,795		\$19,795
Other Costs Distributions	\$17,256	\$14,539		\$14,539
TOTAL EXPENDITURES	\$368,783	\$340,790	\$0	\$340,790

1 Actual MDCH payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Improper Billings to Third Parties

The Health Department did not bill Medicaid at the total amount of charges.

Recommendation: Comply with the Michigan Title X Family Planning Program Standards and Guidelines Manual and bill all third parties, including Medicaid, for the total amount of charges.

Comments: The Health Department was unaware they could not bill Medicaid a lessor amount than the total amount of charges.

Corrective Action: The Health Department will begin billing Medicaid the full charges. This will not include medications, as we can only bill Medicaid for total cost of the medication.

**Anticipated
Completion Date:** January 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: No Administration Approved Policy for Setting Family Planning Program Fees Lower Than Cost

The Health Department set their Family Planning Program fees below the cost with no administration approved policy designating the percentage of the cost the fee schedule is to represent.

Recommendation: Comply with the Michigan Title X Family Planning Program Standards and Guidelines Manual and implement an administration approved policy for designating the percentage of the cost the fee is to represent if the Health Department chooses to set fees lower than what is required to recover actual costs.

Comments: The Board of Health (Board of Commissioners) reviews and approves any significant billing policies or procedures. The Board of Health approves a County wide fee schedule each year during the budget process which states; "Fees for the Community Health Programs listed above are reviewed on a regular basis and adjusted as necessary to maintain compliance with program and grant guidelines. A sliding fee scale is available for many of the clients and services that we provide. Consideration in this process includes cost of providing service (vaccine and supply cost), maximization of revenue by billing third party (insurance), affordability to clients, and compliance with applicable regulations. In many cases, fees are adjusted to ensure that county residents are not denied necessary services due to their inability to pay for the same." It has been accepted by our Board that we make changes to fees for services for our Community Health Programs during the year based on factors such as grant requirements, cost analysis, and third party payer allowed amounts.

Corrective Action: The Health Department will implement an administration approved policy for designating the percentage of the cost the fee is to represent since the fees are set lower than what is required to recover actual costs.

**Anticipated
Completion Date:** January 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Excess Internal Service Fund

Grand Traverse County's Information Technology Internal Service Fund had a working capital reserve that exceeded the allowable amount as of December 31, 2013 according to OMB Circular A-87.

Recommendation: Grand Traverse County devise a plan to ensure the Information Technology Internal Service Fund working capital reserves is reduced to the allowable limit (60 days cash expenses) by FYE 2017 by either cash refunds or adjustments to future billing rates/allocations.

Comments: None

Corrective Action: Grand Traverse County will reduce the charges from the Information Technology Fund to account for the excess working capital reserve that has been accumulated. This will be accomplished by the necessary adjustments to the amounts invoiced during our next two fiscal years (2016 and 2017) in order to bring the working capital reserve into compliance with OMB Circular A-87.

Anticipated

Completion Date: September 30, 2017

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 4

Finding: Leave Time Allocation Based on Budgeted FTEs

The Health Department allocated leave time to the WIC and Family Planning Programs based on budgeted FTEs rather than actual time worked in the Programs.

Recommendation: Implement policies and procedures to ensure the leave time allocation percentages are updated at least quarterly based on actual time worked so leave time is equitably allocated to all benefiting programs.

Comments: The Health Department has implemented updated FTEs on a quarterly basis based on the actual time spent by each employee on each program. The leave time is then allocated based upon the actual time the employee works in each program on a quarterly basis.

Corrective Action: The Health Department started implementing the leave time based on actual FTEs versus budgeted FTEs in May of 2015.

**Anticipated
Completion Date:** May 2015

MDHHS Response: None

Corrective Action Plan

Finding Number: 5

Page Reference: 5

Finding: Termination Costs Improperly Reported

The Health Department improperly reported termination costs as a direct expense on the FSRs.

Recommendation: Implement policies and procedures to ensure termination costs are allocated as a general administrative expense to all activities of the Health Department.

Comments: The Health Department will start to implement the charge for payments for unused leave when an employee retires or is terminated from employment to our general administrative overhead cost center. The termination cost will then be allocated as a cost to all programs within the Health Department.

Corrective Action: The Health Department will start to implement this process with any future employees leaving the Health Department and have termination benefits.

**Anticipated
Completion Date:** September 2015

MDHHS Response: None