

# Audit Report

Luce-Mackinac-Alger-Schoolcraft District Health Department  
Family Planning and WIC Programs

October 1, 2013 – September 30, 2014



Bureau of Audit, Reimbursement, and Quality Assurance  
Quality Assurance and Review  
January 2016



STATE OF MICHIGAN  
DEPARTMENT OF HEALTH AND HUMAN SERVICES  
LANSING

RICK SNYDER  
GOVERNOR

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DIRECTOR

January 20, 2016

Nicholas Derusha, REHS, Health Officer/Environmental Health Director  
LMAS District Health Department  
14150 Hamilton Lake Rd.  
Newberry, Michigan 49868

Dear Mr. Derusha:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the LMAS District 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; Corrective Action Plans; and Comment and Recommendation. 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: 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  
Steve Utter, Financial Analyst, Division of Family and Community Health

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## **DESCRIPTION OF AGENCY**

The Luce-Mackinac-Alger-Schoolcraft 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 Luce County, which is the reporting entity, and the administrative office is located in Newberry, Michigan. The Health Department operates under the legal supervision and control of the Board of Health, which is comprised of commissioners of Luce, Mackinac, Alger and Schoolcraft Counties. The Health Department provides community health program services to the residents of Luce, Mackinac, Alger and Schoolcraft Counties.

## **FUNDING METHODOLOGY**

The Health Department services were 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 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 Family Planning Program was funded by MDCH Grant Funds, First and Third Party Fees and Collections, and Local and Other Revenue. Grant funding from MDCH for the Family Planning Program was federal funding under federal catalog number 93.217 and 93.994, and was 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 Programs is federal funding under federal catalog number 10.557.

## **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, 2013 to September 30, 2014. Our review procedures included the following:

- Reviewed the most recent Single Audit Report for any Family Planning Program or WIC Programs concerns.
- Reviewed the completed internal control questionnaire.
- Reconciled the Family Planning Program and WIC 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 cost for proper reporting and compliance with Federal requirements.
- 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.

### 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, two exceptions were noted: misreported Medicaid Cost Based Reimbursement (Finding 1), and third party fees not reported on a cash basis (Finding 2).

## **Finding**

### **1. Misreported Medicaid Cost Based Reimbursements**

The Health Department did not disclose the full amount of the Medicaid Cost Based Reimbursements (MCBR) received during FYE 2014 for the Family Planning Program.

The Financial Status Report (FSR) Form Preparation Instructions require fees and collections to be reported on the cash basis. However, if cash basis reporting of MCBR could result in revenues exceeding expenditures on the FSR, MDCH has allowed Local Public Health Departments (LPHD) to defer reporting the excess as long as the LPHD provides a stated assurance via an attachment to the FSR that the unreported reimbursements are placed in the LPHD's Restricted Fund Balance and will be spent in future periods in benefit of the Family Planning Program.

The Health Department received a total of \$251,249 of MCBR for the Family Planning Program during FYE 2014. The Health Department reported \$99,961 of MCBR for the Family Planning Program on their final FSR, resulting in a deferral of \$151,288. However, rather than reserving the funds for the Family Planning Program and reporting it as such, the funds were reported as being used in seven other programs.

## **Recommendation**

We recommend that the Health Department implement policies and procedures to ensure proper reporting of MCBR revenue, amend the FSRs to properly report MCBR revenue for all programs, and submit the required attachment related to the deferred MCBR revenue for the Family Planning Program.

## **Finding**

### **2. Third Party Fees Not Reported on a Cash Basis**

The Health Department improperly reported third party fees based on the amounts billed less applicable discounts rather than on the cash basis as required.

The Financial Status Report Form Preparation Instructions state:

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

The Health Department reported \$12,417 of Medicaid and other insurance receipts on the FSR, which represents the amount billed less applicable discounts. However, \$34,113 of Medicaid and other insurance receipts were actually collected on a cash basis. An adjustment is shown on the attached Family Planning Statement of Grant Program Revenues and Expenditures.

**Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure third party fees are reported on the FSR based on the amount of cash received for the reporting period.

**MDCH SHARES OF COST AND BALANCE DUE**

**Objective 3:** To determine the MDCH shares of cost for the WIC, WIC Breastfeeding, 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 Program, WIC Breastfeeding Program, and Family Planning Program for fiscal year ended September 30, 2014, were \$162,969; \$41,023; and \$73,202; respectively. The reclassification adjustments had no impact on MDCH funding.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant (Including MCH)	\$73,202	\$73,202 <sup>1</sup>		\$73,202
Fees & Collections - 1st & 2nd Party	\$2,900	\$3,700		\$3,700
Fees & Collections - 3rd Party	\$48,000	\$12,417	\$21,696 <sup>2</sup>	\$34,113
Federal Cost Based Reimbursement	\$35,000	\$99,961	(\$21,696) <sup>2, 3</sup>	\$78,265
Local Funds - Other	\$58,605	\$4,592		\$4,592
<b>TOTAL REVENUES</b>	<b>\$217,707</b>	<b>\$193,872</b>	<b>\$0</b>	<b>\$193,872</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$84,109	\$90,053		\$90,053
Fringe Benefits	\$24,644	\$28,359		\$28,359
Supplies & Materials	\$33,625	\$14,674		\$14,674
Travel	\$4,000	\$2,235		\$2,235
Communication	\$3,200	\$3,221		\$3,221
Other	\$3,965	\$70		\$70
Indirect Costs	\$64,164	\$55,260		\$55,260
<b>TOTAL EXPENDITURES</b>	<b>\$217,707</b>	<b>\$193,872</b>	<b>\$0</b>	<b>\$193,872</b>

<sup>1</sup> Actual MDCH payments.

<sup>2</sup> Adjustment to third party cash receipts versus original reporting of revenue on accrual basis (Finding 2).

<sup>3</sup> MCBR deferral = \$172,984 for FYE 2014 after the 3rd party adjustment.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant	\$162,969	\$162,969 <sup>1</sup>		\$162,969
Local Funds - Other	\$84,911	\$36,225		\$36,225
<b>TOTAL REVENUES</b>	<b>\$247,880</b>	<b>\$199,194</b>	<b>\$0</b>	<b>\$199,194</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$110,649	\$96,022		\$96,022
Fringe Benefits	\$32,420	\$30,704		\$30,704
Supplies & Materials	\$2,900	\$0		\$0
Travel	\$5,100	\$4,244		\$4,244
Communication	\$3,700	\$3,479		\$3,479
Other	\$8,700	\$5,601		\$5,601
Indirect Costs	\$84,411	\$59,144		\$59,144
<b>TOTAL EXPENDITURES</b>	<b>\$247,880</b>	<b>\$199,194</b>	<b>\$0</b>	<b>\$199,194</b>

<sup>1</sup> Actual MDCH payments.

**LMAS District Health Department**  
**WIC Breastfeeding**  
**Statement of Grant Program Revenues and Expenditures**  
**10/1/13 - 9/30/14**

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
<b>REVENUES:</b>				
MDCH Grant	\$41,023	\$41,023 <sup>1</sup>		\$41,023
Local Funds - Other	\$19,039	\$15,746		\$15,746
<b>TOTAL REVENUES</b>	<b>\$60,062</b>	<b>\$56,769</b>	<b>\$0</b>	<b>\$56,769</b>
<b>EXPENDITURES:</b>				
Salary & Wages	\$31,537	\$26,537		\$26,537
Fringe Benefits	\$9,240	\$8,364		\$8,364
Travel	\$4,852	\$3,010		\$3,010
Communication	\$1,700	\$1,907		\$1,907
Other	\$500	\$664		\$664
Indirect Costs	\$12,233	\$16,287		\$16,287
<b>TOTAL EXPENDITURES</b>	<b>\$60,062</b>	<b>\$56,769</b>	<b>\$0</b>	<b>\$56,769</b>

<sup>1</sup> Actual MDCH payments.

## Corrective Action Plan

**Finding Number:** 1

**Page Reference:** 3

**Finding:** Misreported Medicaid Cost Based Reimbursements

The Health Department did not disclose the full amount of the Medicaid Cost Based Reimbursements received during FYE 2014 for the Family Planning Program.

**Recommendation:** Implement policies and procedures to ensure proper reporting of MCBR revenue, amend the FSRs to properly report MCBR revenue for all programs, and submit the required attachment related to the deferred MCBR revenue for the Family Planning Program.

**Comments:** The Health Department is in agreement with the finding.

**Corrective Action:** The Health Department's finance staff reviewed the FSR Form Preparation Instructions, and added a copy to the instruction manual. Additionally, the Health Department amended the final FSR for fiscal year 2014 to accurately report the appropriate MCBR amount and the Health Department submitted the required attachment related to the deferred MCBR revenue for the Family Planning Program.

**Anticipated**

**Completion Date:** November 4, 2015

**MDHHS Response:** None

## Corrective Action Plan

**Finding Number:** 2

**Page Reference:** 3

**Finding:** Third Party Fees Not Reported on a Cash Basis

The Health Department improperly reported third party fees based on the amounts billed less applicable discounts rather than on the cash basis as required.

**Recommendation:** Adopt policies and procedures to ensure third party fees are reported on the FSR based on the amount of cash received for the reporting period.

**Comments:** The Health Department agrees to comply. However, the Health Department disagrees with this method of reporting for the following reasons. First, when the Health Department submitted budgets through E-GrAMS, the State accepted and approved the budgets based on the accrual method of accounting. There is a section in the face sheet of each program budget that requires the Health Department to indicate whether they are reporting on cash or accrual basis, and the Health Department indicated the accrual basis. Second, the Matching Principle as directed by GAAP, directs to record revenue in the same period as the related expense incurred. Requiring local health departments to record revenues on the cash basis is in direct conflict with this principle.

**Corrective Action:** The Health Department's finance staff reviewed the FSR Form Preparation Instructions, and added a copy to the instructions manual. Additionally, the Health Department amended the final FSR for fiscal year 2014 to report third party fees according to these instructions

**Anticipated  
Completion Date:** November 4, 2015

**MDHHS Response:** None

## **Comment and Recommendation**

### **WIC Supplies Reported as Other Expenses**

The Health Department did not report supplies expenditures in the correct category on the Financial Status Report for the WIC Program.

The Financial Status Report Form Preparation Instructions require reporting of current period expenditures in specific categories. The “Supplies and Materials” category is to include medical supplies and office supplies; however, the Health Department reported these items in the “All Others” category.

### **Recommendation**

We recommend that the Health Department adopt policies and procedures to ensure expenditures are reported in the correct category on the Financial Status Report.

### **Health Department Response**

The Health Department is in agreement with the Comment and Recommendation. The finance staff reviewed the FSR Form and FSR Form Preparation Instructions, and added a copy to the instructions manual. This was completed on November 4, 2015.