

Audit Report

Macomb County Health Department
WIC, WIC Breastfeeding and 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

NICK LYON
DIRECTOR

October 27, 2015

William Ridella, MPH, MBA
Macomb County Health Department
43525 Elizabeth Road
Mt. Clemens, MI 48043

Dear Mr. Ridella:

Enclosed is our final report from the Michigan Department of Health and Human Services audit of the Macomb 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, and the Office of Audit's response to those comments where necessary.

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
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DESCRIPTION OF AGENCY

The Macomb 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 Macomb County, which is the reporting entity, and the administrative office is located in Mount Clemens, Michigan. The Health Department operates under the legal supervision and control of the County Executive Officer. The Health Department provides community health program services to the residents of Macomb County.

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). 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 Programs were funded by MDCH Grant Funds and Other Local Funds. Grant funding from MDCH for the WIC Program was 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 the Family Planning Program was federal funding under federal catalog numbers 93.217 and 93.994, and was 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) 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 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 and Family Planning Programs' 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 subrecipient management and monitoring (Finding 1) and billings related to Family Planning Program services (Finding 2).

Finding

1. Subrecipient Management and Monitoring Responsibilities Not Met

The Health Department passed Federal award funds (WIC Program) through to a subrecipient but did not fulfill the subrecipient management and monitoring responsibilities required by the contract with MDCH and Federal OMB Circular A-133.

The MDCH contract, Part II, Section I. H. requires the Health Department to develop a subrecipient monitoring plan, ensure subrecipients comply with the Single Audit Act requirements, and issue management decisions on audit findings of subrecipients.

OMB Circular A-133, Section .400 (d) requires the pass-through entity to identify Federal awards made by informing each subrecipient of the Catalog of Federal Domestic Assistance (CFDA) title and number among other things, monitor the activities of subrecipients, ensure subrecipients have met Single Audit requirements, and issue a management decision on audit findings of subrecipients.

The Health Department has at least one contract with a subrecipient whereby the subrecipient was not provided the required information (CFDA program title and number, source of funding, federal agency name, and Single Audit requirements), and the Health Department did not ensure the subrecipient met the Single Audit requirements and did not issue a management decision on any audit findings of the subrecipient. Additionally, a subrecipient monitoring plan has not been developed as required. The Health Department's discussions with the County's outside auditor led them to believe the fixed rate billing contract with the subrecipient exempted them from the applicable subrecipient management and monitoring requirements. However, although the agreement had a fixed rate billing arrangement, it was a subrecipient relationship under the provisions of OMB Circular A-133, Section .210(b)(5) and the subrecipient management and monitoring provisions referenced above apply.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure compliance with the MDCH contract and Federal requirements (located at 2 CFR 200.331 for awards granted after December 26, 2014) with respect to subrecipient management and monitoring.

Finding

2. Improper Billing to Third Parties

The Health Department did not bill Medicare 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."

The bills to Medicare are based on the amount that Medicare 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 Medicare, for the total amount of charges.

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 noted exceptions related to funding an Internal Service Fund (Finding 3), reporting termination costs (Finding 4), payments to a subcontractor for unsupported administration fees (Finding 5), a fixed amount award to a subcontractor (Finding 6), and underreported Medical Cost Based Reimbursement (Finding 7).

Finding

3. Internal Service Fund Working Capital Reserve Exceeds Allowable Amount

Macomb County's Employee Fringe Benefits Internal Service Fund had a working capital reserve that exceeded the allowable amount as of December 31, 2013 according to OMB Circular A-87.

Macomb County charges Macomb County Departments (including the Health Department) for employee fringe benefits. The County places the funds received from the County Departments in the Employee Fringe Benefits Internal Service Fund (Fund). The Fund is used to finance the cost of providing various employee benefits. Based on the December 31, 2013 financial statements and the report issued by MAXIMUS, the County had accumulated an excess balance.

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 Macomb County's Combining Statement of Revenues, Expenses and Changes in Net Position for the Year Ended December 31, 2013, expenses were \$53,702,418 for the Employee Fringe Benefits Internal Service Fund which equates to a 60-day requirement of \$8,950,403. However, as of December 31, 2013, Macomb County's Employee Fringe Benefits Internal Service Fund had a working capital reserve of \$18,253,083. Accordingly, the working capital reserve exceeded the allowable amount by \$9,302,680, and reductions are needed to achieve compliance with OMB Circular A-87.

Recommendation

We recommend that Macomb County devise a plan to ensure the Employee Fringe Benefits Internal Service Fund working capital reserve 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. Termination Costs Improperly Reported

The Health Department improperly reported termination costs as direct expenses 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 sick leave when an employee retires or terminates employment directly to the employee's "home" program. 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.

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.

Finding

5. Payments to Subcontractor for Unsupported Administration Fees

The Health Department paid a subcontractor a 5% administration fee that was not supported as an allowable cost according to Federal cost principles.

According to OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A (in pertinent part):

1. *The total cost of an award is the sum of allowable direct and allocable indirect costs less any applicable credits...*
2. *To be allowable under an award, costs must...be allocable...be adequately documented...*
4. *A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.*

The Health Department's Memorandum of Agreement with the Southeastern Michigan Health Association (SEMHA) requires SEMHA to carry out various functions to assist in the implementation of various programs of the Health Department. The Health Department agreed to reimburse SEMHA for "all actual expenditures incurred in operating the programs...plus a fiscal management, accounting and reporting fee amounting to five percent of total expenditures." The 5% administration fee was not supported as an allowable cost (based on actual costs of SEMHA allocated to all benefitting programs) according to OMB Circular A-122 provisions.

Recommendation

We recommend that the Health Department amend subcontracts and Memorandums of Agreement to ensure payment terms comply with applicable Federal cost principles, and monitor subcontractors to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles.

Finding

6. Fixed Amount Award to Subrecipient Not Allowed Under Applicable Cost Principles

The Health Department used a fixed amount award to reimburse a subrecipient for WIC Program services rather than supported actual costs as required by the applicable Federal cost principles.

According to OMB Circular A-122 (located at 2 CFR Part 230), Appendix A, Section A (in pertinent part):

1. *The total cost of an award is the sum of allowable direct and allocable indirect costs less any applicable credits...*
2. *To be allowable under an award, costs must...be allocable...be adequately documented...*
4. *A cost is allocable to a particular cost objective, such as a grant, contract, project, service, or other activity, in accordance with the relative benefits received.*

The Health Department's Agreement with the Arab Community Center for Economic and Social Services (ACCESS) requires ACCESS to assist the Health Department in the administration of the WIC Program. The Health Department agreed to reimburse ACCESS a fixed rate per month per WIC "Closeout Participation" participant properly serviced by ACCESS. The rate, however, has not been supported as being the actual cost of providing the services, and is therefore not in compliance with the requirements of OMB Circular A-122, which represent the applicable Federal cost principles during the audit period.

Recommendation

We recommend that the Health Department amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subcontractors to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles. We recommend the Health Department consider the Federal Grant Reforms contained at 2 CFR 200.332 and 200.201 (applicable to FYE 2016 awards) whereby fixed amount subawards are permissible with prior written approval up to the Simplified Acquisition Threshold (\$150,000) under certain specific conditions.

Finding

7. Underreported Medicaid Cost Based Reimbursement

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

Financial Status Report (FSR) Form Preparation Instructions require fees and collections to be reported on a 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 \$374,945 of MCBR for the Family Planning Program during FYE 2014. The Health Department reported \$227,741 of MCBR for the Family Planning Program on their final FSR, resulting in a deferral of \$147,204. However, only \$93,502 was included on the Health Department's Family Planning Program Attachment as being a "carry over into a fund balance with the intention of spending these funds in future years specifically for the benefit of the program." The difference of \$53,702 resulted from a negative adjustment for "All Other Medicaid" Programs that had been netted against the Family Planning Program share when recording the revenue and determining the disclosure amount.

Recommendation

We recommend that the Health Department implement policies and procedures to ensure proper reporting of MCBR revenue. We also recommend that the Health Department amend the Family Planning Program Attachment to the FSR to properly state the full deferral amount of \$147,204.

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, WIC Breastfeeding, and Family Planning Programs for fiscal year ended September 30, 2014, were \$1,719,628, \$46,790, and \$339,757, respectively. The attached Statements of Grant Program Revenues and Expenditures show the budgeted, reported, and allowable costs. The audit made no adjustments affecting WIC, WIC Breastfeeding, or Family Planning grant program funding.

**Macomb 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	\$1,719,628	\$1,719,628 ¹		\$1,719,628
Fees & Collections - 1st & 2nd Party	\$0	\$6		\$6
Local Funds - Other	\$351,810	\$271,975		\$271,975
TOTAL REVENUES	\$2,071,438	\$1,991,609	\$0	\$1,991,609
EXPENDITURES:				
Salary & Wages	\$793,945	\$806,442		\$806,442
Fringe Benefits	\$544,781	\$511,657		\$511,657
Cap. Exp. For Equip & Fac.	\$15,000	\$19,503		\$19,503
Contractual	\$193,343	\$188,953		\$188,953
Supplies & Materials	\$24,810	\$19,367		\$19,367
Travel	\$13,000	\$11,128		\$11,128
Communication	\$26,062	\$11,143		\$11,143
County-City Central Services	\$230,423	\$230,423		\$230,423
Space Costs	\$37,200	\$35,340		\$35,340
Other	\$48,306	\$11,358		\$11,358
Indirect Costs	\$144,568	\$146,295		\$146,295
TOTAL EXPENDITURES	\$2,071,438	\$1,991,609	\$0	\$1,991,609

¹ Actual MDCH payments.

**Macomb 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	\$50,633	\$46,790 ¹		\$46,790
TOTAL REVENUES	\$50,633	\$46,790	\$0	\$46,790
EXPENDITURES:				
Salary & Wages	\$7,104	\$6,886		\$6,886
Fringe Benefits	\$4,902	\$4,967		\$4,967
Contractual	\$23,890	\$22,280		\$22,280
Communication	\$287	\$0		\$0
County-City Central Services	\$11,153	\$11,158		\$11,158
Other	\$2,000	\$186		\$186
Indirect Costs	1,297	\$1,313		\$1,313
TOTAL EXPENDITURES	\$50,633	\$46,790	\$0	\$46,790

¹ Actual MDCH payments.

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

	BUDGETED	REPORTED	AUDIT ADJUSTMENT	ALLOWABLE
REVENUES:				
MDCH Grant	\$150,269	\$150,269	1	\$150,269
MCH Funding	\$189,488	\$189,488	1	\$189,488
Fees & Collections - 1st & 2nd Party	\$34,200	\$29,839		\$29,839
Fees & Collections - 3rd Party	\$201,489	\$244,901		\$244,901
Federal Cost Based Reimbursement	\$200,000	\$227,741		\$227,741
Local Funds - Other	\$183,717	\$0		\$0
TOTAL REVENUES	\$959,163	\$842,238	\$0	\$842,238
EXPENDITURES:				
Salary & Wages	\$408,390	\$375,463		\$375,463
Fringe Benefits	\$220,085	\$177,997		\$177,997
Contractual	\$4,500	\$4,012		\$4,012
Supplies & Materials	\$106,900	\$80,021		\$80,021
Travel	\$10,010	\$7,743		\$7,743
Communication	\$4,580	\$4,578		\$4,578
County-City Central Services	\$115,849	\$119,669		\$119,669
Other	\$20,981	\$11,425		\$11,425
Indirect Costs	\$67,868	\$61,330		\$61,330
TOTAL EXPENDITURES	\$959,163	\$842,238	\$0	\$842,238

1 Actual MDCH payments.

Corrective Action Plan

Finding Number: 1

Page Reference: 2

Finding: Subrecipient Management and Monitoring Responsibilities Not Met

The Health Department passed Federal award funds (WIC Program) through to a subrecipient but did not fulfill the subrecipient management and monitoring responsibilities required by the contract with MDCH and Federal OMB Circular A-133.

Recommendation: Implement policies and procedures to ensure compliance with the MDCH contract and Federal requirements (located at 2 CFR 200.331 for awards granted after December 26, 2014) with respect to subrecipient management and monitoring.

Comments: None

Corrective Action: The Health Department will develop and implement policies and procedures that satisfy the Federal subrecipient management and monitoring requirements per 2 CFR 200.331.

**Anticipated
Completion Date:** March 30, 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 2

Page Reference: 3

Finding: Improper Billing to Third Parties

The Health Department did not bill Medicare 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 Medicare, for the total amount of charges.

Comments: None

Corrective Action: The Health Department will evaluate and analyze the Family Planning fee schedule. Upon review, adjustments will be made to the fee schedule to reflect the consistency of charges for all billable services regardless of third party payer.

**Anticipated
Completion Date:** March 30, 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 3

Page Reference: 4

Finding: Internal Service Fund Working Capital Reserve Exceeds Allowable Amount
Macomb County's Employee Fringe Benefits 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: Devise a plan to ensure the Employee Fringe Benefits Internal Service Fund working capital reserve 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: The Macomb County Finance Department reviews the reserve balance in the fringe benefit fund every year during the budget cycle to evaluate balance levels and to increase or decrease the charging back amount accordingly.

**Anticipated
Completion Date:** In process

MDHHS Response: None

Corrective Action Plan

Finding Number: 4

Page Reference: 5

Finding: Termination Costs Improperly Reported

The Health Department improperly reported termination costs as direct expenses 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: None

Corrective Action: Macomb County has implemented charging termination costs for all employees to the County's compensated absences fund. Therefore, no further termination costs will be charged to the direct program.

**Anticipated
Completion Date:** Completed

MDHHS Response: None

Corrective Action Plan

Finding Number: 5

Page Reference: 5

Finding: Payments to Subcontractor for Unsupported Administration Fees

The Health Department paid a subcontractor a 5% administration fee that was not supported as an allowable cost according to Federal cost principles.

Recommendation: Amend subcontracts and Memorandums of Agreement to ensure payment terms comply with applicable Federal cost principles, and monitor subcontractors to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles.

Comments: None

Corrective Action: The Health Department will review and amend contracts to incorporate acceptable language regarding charges that can be supported by allowable cost principles.

**Anticipated
Completion Date:** March 30, 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 6

Page Reference: 6

Finding: Fixed Amount Award to Subrecipient Not Allowed Under Applicable Cost Principles

The Health Department used a fixed amount award to reimburse a subrecipient for WIC Program services rather than supported actual costs as required by the applicable Federal cost principles.

Recommendation: Amend subcontracts to ensure payment terms comply with applicable Federal cost principles, and monitor subcontractors to ensure payments are for allowed costs that are adequately supported and in compliance with Federal cost principles. Consider the Federal Grant Reforms contained at 2 CFR 200.332 and 200.201 (applicable to FYE 2016 awards) whereby fixed amount subawards are permissible with prior written approval up to the Simplified Acquisition Threshold (\$150,000) under certain specific conditions.

Comments: None

Corrective Action: The Health Department will review fixed unit rate contracts that are less than \$150,000 (Simplified Acquisition Threshold) for both prior written approval from the Federal awarding agency and the criteria outlined in 2 CFR 200.332. Should any contract exceed this threshold, a contract amendment detailing budgeted expenses will be provided, and payments will be based on financial reports of actual expenses.

Anticipated

Completion Date: March 30, 2016

MDHHS Response: None

Corrective Action Plan

Finding Number: 7

Page Reference: 7

Finding: Underreported Medicaid Cost Based Reimbursement

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

Recommendation: Implement policies and procedures to ensure proper reporting of MCBR revenue. Also, amend the Family Planning Program Attachment to the FSR to properly state the full deferral amount of \$147,204.

Comments: None

Corrective Action: The Health Department will revise and attach the Family Planning document reflecting the full deferral amount of \$147,204 to the FYE 2014 FSR.

**Anticipated
Completion Date:** December 31, 2015

MDHHS Response: None